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Consolidated Financial Statements

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Consolidated Income Statement

from January 1 to December 31

| CHF 1000 | Note | 2006 | 2007 |
|---|------|------------------|------------------|
| Net sales | | 1 323 647 | 1 393 690 |
| Cost of goods | 19.1 | (505 227) | (507 207) |
| Gross profit | | 818 420 | 886 483 |
| In % of net sales | | 61.8% | 63.6% |
| Personnel expenses | 6 | (299 553) | (317 919) |
| Rental expenses | 7 | (210 915) | (226 732) |
| Advertising and promotion expenses | 8 | (101 540) | (115 818) |
| General operating expenses | 9 | (92 805) | (98 574) |
| Other operating income | 10 | 29 451 | 28 750 |
| Total operating expenses before depreciation and impairment | | (675 362) | (730 293) |
| Operating earnings before depreciation and impairment (EBITDA) | | 143 058 | 156 190 |
| In % of net sales | | 10.8% | 11.2% |
| Depreciation | | (55 064) | (60 897) |
| Impairment | 11 | (76 311) | (471) |
| Operating earnings (EBIT) | | 11 683 | 94 822 |
| In % of net sales | | 0.9% | 6.8% |
| Financial income | 12 | 890 | 824 |
| Financial expenses | 13 | (11 140) | (12 089) |
| Exchange gains/(losses), net | 14 | (890) | (3 244) |
| Profit before income tax | | 543 | 80 313 |
| In % of net sales | | 0.04% | 5.8% |
| Tax expenses | 15 | (20 223) | (19 339) |
| Net profit of the year | | (19 680) | 60 974 |
| In % of net sales | | (1.5%) | 4.4% |
| Basic earnings per share | 16 | (2.32) | 7.19 |
| Diluted earnings per share | 16 | (2.32) | 7.10 |

The notes on pages 6 to 46 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as of December 31

Contents

Income
Statement and
Balance Sheet

Cash Flow
and Changes
in Equity

Notes

Group Auditors

| CHF 1000 | Note | 31.12.2006 | 31.12.2007 |
|--|--------|----------------|----------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 17 | 41 756 | 42 076 |
| Receivables, advance payments and prepaid expenses | 18 | 42 927 | 47 715 |
| Derivative financial instruments | 23 | 1 408 | 79 |
| Inventories | 19 | 280 627 | 288 741 |
| Total current assets | | 366 718 | 378 611 |
| Long-term assets | | | |
| Tangible assets | 20 | 424 625 | 443 402 |
| Financial assets | 21 | 696 | 712 |
| Intangible assets | 22 | 77 821 | 79 168 |
| Deferred tax assets | 15 | 14 900 | 15 115 |
| Total long-term assets | | 518 042 | 538 397 |
| Total assets | | 884 760 | 917 008 |
| Liabilities and shareholders' equity | | | |
| Current liabilities | | | |
| Short-term financial liabilities | 24 | 7 187 | 19 085 |
| Trade payables | | 60 317 | 61 714 |
| Derivative financial instruments | 30 | 2 613 | 10 416 |
| Other liabilities and accruals | 25 | 66 969 | 65 741 |
| Current tax liabilities | | 8 879 | 9 684 |
| Total current liabilities | | 145 965 | 166 640 |
| Long-term liabilities | | | |
| Lease liabilities | 26 | 46 475 | 44 333 |
| Provisions | 27 | 7 927 | 7 808 |
| Deferred tax liabilities | 15 | 40 892 | 40 642 |
| Mortgages | 28 | 93 240 | 95 000 |
| Loans | 29 | 61 596 | 39 303 |
| Total long-term liabilities | | 250 130 | 227 086 |
| Shareholders' equity | | | |
| Share capital less treasury shares | 31, 32 | 46 006 | 21 694 |
| Other reserves | | 173 789 | 173 789 |
| Retained earnings | | 268 870 | 327 799 |
| Total shareholders' equity | | 488 665 | 523 282 |
| Total liabilities and shareholders' equity | | 884 760 | 917 008 |

The notes on pages 6 to 46 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

from January 1 to December 31

| CHF 1000 | Note | 2006 | 2007 |
|---|--------|-----------------|-----------------|
| Net profit for the year | | (19 680) | 60 974 |
| Adjustments: | | | |
| – Tax expenses | 15 | 20 223 | 19 339 |
| – Financial expenses | 13, 14 | 12 030 | 15 333 |
| – Financial income | 12 | (890) | (824) |
| – Depreciation and impairment | 11 | 131 375 | 61 368 |
| – Profit on disposal of assets | | (19) | (62) |
| – Other non-cash expenses | | 1 202 | 1 727 |
| Change in long-term provisions | | (219) | (357) |
| Change in inventories | | (25 974) | (2 701) |
| Change in net working capital | | (7 687) | (9 304) |
| Operating earnings after changes in net working capital | | 110 361 | 145 493 |
| Financial income received | | 890 | 824 |
| Financial expenses paid | | (10 362) | (16 324) |
| Taxes paid | | (27 393) | (18 494) |
| Cash flow from operating activities | | 73 496 | 111 499 |
| Investments in intangible assets | 22.1 | (1 547) | (3 373) |
| Investments in tangible assets | 20.1 | (71 102) | (70 934) |
| Disposals of tangible assets | | 344 | 250 |
| Net cash provided/(used) by investing activities | | (72 305) | (74 057) |
| Change in bank loans | 29 | 12 500 | (22 500) |
| Change in finance lease liabilities | | (5 441) | (7 103) |
| Purchase of treasury shares | 32 | (9 989) | (10 989) |
| Disposals of treasury shares | 32 | 4 256 | 3 589 |
| Change in mortgages | 28 | (160) | 1 760 |
| Distribution to shareholders | 33 | (17 037) | (17 027) |
| Net cash provided/(used) by financing activities | | (15 871) | (52 270) |
| Net increase/(decrease) in cash and cash equivalents | | (14 680) | (14 828) |
| Net cash and cash equivalents at the beginning of the period | 17 | 59 678 | 41 013 |
| Effect of exchange rate changes | | (3 985) | 943 |
| Net increase/(decrease) in cash and cash equivalents | | (14 680) | (14 828) |
| Net cash and cash equivalents at the end of the period | 17 | 41 013 | 27 128 |

The notes on pages 6 to 46 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Group Equity

| CHF 1000 | Note | Share capital | Treasury shares | Share premium reserve | Retained earnings | Currency translation differences | Valuation financial instruments | Valuation share option plan | Total |
|---|------|---------------|-----------------|-----------------------|-------------------|----------------------------------|---------------------------------|-----------------------------|-----------------|
| Balance 1.1.2006 | 31 | 88 000 | (20 032) | 173 789 | 294 228 | (12 260) | 3 669 | 1 792 | 529 186 |
| Cash flow hedges, net of tax | 36.1 | | | | | | (3 782) | | (3 782) |
| Currency translation differences | | | | | | 4 509 | | | 4 509 |
| Net income/(expense) recognized directly in equity | | | | | 0 | 4 509 | (3 782) | | 727 |
| Net loss for the year 2006 | | | | | (19 680) | | | | (19 680) |
| Total recognized income for 2006 | | | | | (19 680) | 4 509 | (3 782) | | (18 953) |
| Value of granted options | 34 | | | | | | | 1 202 | 1 202 |
| Value of exercised/expired options | 34 | | | | 850 | | | (850) | 0 |
| Disposals of treasury shares | 32 | | 5 064 | | (808) | | | | 4 256 |
| Purchase of treasury shares | 32 | | (9 989) | | | | | | (9 989) |
| Par value reduction | 33 | (17 600) | 563 | | | | | | (17 037) |
| Balance 31.12.2006 | 31 | 70 400 | (24 394) | 173 789 | 274 590 | (7 751) | (113) | 2 144 | 488 665 |
| Balance 1.1.2007 | 31 | 70 400 | (24 394) | 173 789 | 274 590 | (7 751) | (113) | 2 144 | 488 665 |
| Cash flow hedges, net of tax | 36.1 | | | | | | (6 711) | | (6 711) |
| Currency translation differences | | | | | | 3 054 | | | 3 054 |
| Net income/(expense) recognized directly in equity | | | | | 0 | 3 054 | (6 711) | | (3 657) |
| Net profit for the year 2007 | | | | | 60 974 | | | | 60 974 |
| Total recognized income for 2007 | | | | | 60 974 | 3 054 | (6 711) | | 57 317 |
| Value of granted options | 34 | | | | | | | 1 727 | 1 727 |
| Value of exercised/expired options | 34 | | | | 521 | | | (521) | 0 |
| Disposals of treasury shares | 32 | | 3 704 | | (115) | | | | 3 589 |
| Purchase of treasury shares | 32 | | (10 989) | | | | | | (10 989) |
| Par value reduction | 33 | (17 600) | 573 | | | | | | (17 027) |
| Balance 31.12.2007 | 31 | 52 800 | (31 106) | 173 789 | 335 970 | (4 697) | (6 824) | 3 350 | 523 282 |

The notes on pages 6 to 46 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

Charles Vögele Holding AG, together with its subsidiary companies, forms the Charles Vögele Group, an independent European fashion retail group with sales outlets in Switzerland, Germany, the Netherlands, Belgium, Austria, Slovenia, Hungary, Poland and the Czech Republic.

Charles Vögele Holding AG is a joint stock corporation that is domiciled in Pfäffikon SZ, Switzerland, and listed on the SWX Swiss Exchange.

2 Summary of main accounting and valuation principles

2.1 Preparation of the financial statements

The consolidated financial statements in this report are based on the individual financial statements of Charles Vögele Group companies, which are all prepared in accordance with standard Group guidelines. The Group's accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) on the basis of historical purchase values, except derivative financial instruments which are recorded at fair value. Note 4 explains the most important accounting assumptions and estimates.

2.2 Changes in accounting policies

New IFRS standards and interpretations

The following new IFRS standards, amendments to existing standards and interpretations of existing standards, valid since January 1, 2007, have been applied on these annual financial statements:

- IFRS 7: Financial instruments: Disclosures and related changes to IAS 1
- IFRIC 7: Accounting in high-inflation countries (not relevant to the Charles Vögele Group)
- IFRIC 8: Scope of IFRS 2
- IFRIC 9: Reassessment of embedded derivatives
- IFRIC 10: Interim financial reporting and impairment

The following new and amended IFRS standards and interpretations were approved, but will only come into effect for future reporting periods and were not applied in advance to these financial statements:

- IFRIC 11: IFRS 2 – Group and treasury share transactions (applicable from 2008 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
- IFRIC 12: Service concession arrangements (applicable from 2008 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
- IFRIC 14: IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (applicable from 2008 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
- IFRS 8: Operating segments (applicable from 2009 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
- IFRIC 13: Customer loyalty programmes (applicable from 2009 financial year; implications for the Charles Vögele Group's accounts are currently being examined)

- IAS 1: Presentation of financial statements
(applicable from 2009 financial year; implications for Charles Vögele Group's accounts are currently being examined)
- IAS 23: Borrowing costs
(applicable from 2009 financial year; implications for Charles Vögele Group's accounts are currently being examined)
- IFRS 2: Share-based payment
(applicable from 2009 financial year; implications for Charles Vögele Group's accounts are currently being examined)
- IFRS 3: Business combinations
(applicable from 2010 financial year; implications for Charles Vögele Group's accounts are currently being examined)
- IAS 27: Consolidated and separate financial statements
(applicable from 2010 financial year; implications for Charles Vögele Group's accounts are currently being examined)

The changes that have a material effect on these 2007 financial statements are explained below.

IFRS 7 Financial instruments: Disclosures

Applicable since 1.1.2007, the new IFRS 7 standard and the additional changes in IAS 1 govern the disclosure of financial instruments and require the notes to the accounts to provide additional information on the management of financial risks and capital. However, its introduction has no influence on the valuation of individual positions within the annual financial statements.

Change in accounting principle for defined benefit pension schemes (IAS 19)

Until the end of the year 2006, actuarial gains and losses as well as changes to unrecognized assets of defined benefit pension plans were immediately booked to the income statement under personnel expenses. In order to minimize the inherent risk of fluctuating results, from 1.1.2007, the "10%-corridor method" is being used. This method states that only the part of the actuarial gains or losses which exceed 10% of the value of plan assets, or 10% of defined benefit obligations, is recognized in the income statement spread out proportionally over the average remaining working life of the participating employees.

The pension cost created by this change was offset by the release of the surplus coverage of assets. This change in accounting principle did not lead to retrospective changes in the prior-year period.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of Charles Vögele Holding AG and its Swiss and international Group companies.

Capital consolidation is performed using the purchase method in accordance with the new valuation method, meaning that the acquisition cost of investments due for consolidation is set off against their proportionate operating equity capital at the time of acquisition.

Assets and liabilities as well as the expenses and income of the companies in which Charles Vögele Holding AG controls directly or indirectly, and in which it has a voting interest exceeding 50%, are included in full in the consolidated financial

statements. The interest of minority shareholders in net assets and net income is disclosed separately in the consolidated balance sheet and income statement. The Charles Vögele Group does not have any minority shareholders.

The Charles Vögele Group does not have any associated companies (minority stake with voting rights of 20–50%).

Intercompany receivables and payables, income and expenses between companies included in the consolidation, and intercompany profits within the Group are eliminated.

The companies included in the consolidation are detailed in Note 40.

2.4 Scope of consolidation

There were no changes in the scope of consolidation in the 2006 or 2007 financial year.

2.5 Segment reporting

The Group is divided into "Sales Organizations" and "Central Services". The "Sales Organizations" comprises the sales organizations with their branches and related sales logistics operation and are subdivided into the following segments: Switzerland, Germany, Belgium/Netherlands, Austria and Eastern Europe. The Eastern Europe segment comprises the new expansion and pilot markets of Slovenia, Poland, Hungary and the Czech Republic.

The centralized services of the Group relating to the fashion trade are brought together in the "Central Services". The major centralized Group services include purchasing and purchasing logistics, information technology, finance, accounting, controlling, treasury, internal and external communications, advertising and brand management.

The Charles Vögele Group is a centrally managed group with a flat organizational structure operating solely in the fashion trade. The centralization and scalability of the concept are fundamental cornerstones of the Group's strategy. To cover central service costs, the sales organizations are charged with an arms-length mark-up of 15% on the purchase price of products sold.

2.6 Foreign currency translation

The consolidated financial statements are prepared in CHF, which is the Charles Vögele Group's functional and reporting currency. For the individual Group companies, the relevant national currency is the functional currency.

Foreign currency transactions are translated into the functional currency at the exchange rate prevailing on the date of the transaction. Gains and losses that result from foreign currency transactions, or from the translation at the year-end rate of monetary assets and liabilities denominated in foreign currencies, are recorded in the income statement.

On consolidation, all assets and liabilities in balance sheets prepared in foreign currencies are translated into the Group's reporting currency using year-end exchange rates. Income and expenses recorded in income statements prepared in

foreign currencies are translated into the Group's reporting currency at average rates of exchange for the year. Exchange differences arising from those translations are allocated directly to retained earnings in the balance sheet. The average rates of exchange for the year are not significantly different from the transaction rates. Foreign currency differences arising from the valuation of long-term loans with equity character between Group companies are – like net investments in a foreign operation – recorded under equity, with no effect in the income statement, until repayment.

When a group company is sold, the accrued foreign exchange effects booked to equity capital are offset against the net sales proceeds and charged to the income statement.

The following CHF exchange rates are used for the Group's major currencies:

| 2007 | ISO code | Unit | Balance sheet | Income statement |
|----------------|----------|------|---------------|------------------|
| Euro | EUR | 1 | 1.66 | 1.64 |
| Hong Kong | HKD | 1 | 0.14 | 0.15 |
| USA | USD | 1 | 1.13 | 1.20 |
| Hungary | HUF | 100 | 0.66 | 0.65 |
| Poland | PLN | 100 | 46.18 | 43.47 |
| Czech Republic | CZK | 100 | 6.23 | 5.92 |

| 2006 | ISO code | Unit | Balance sheet | Income statement |
|----------------|----------|------|---------------|------------------|
| Euro | EUR | 1 | 1.61 | 1.57 |
| Hong Kong | HKD | 1 | 0.16 | 0.16 |
| USA | USD | 1 | 1.22 | 1.25 |
| Slovenia | SIT | 100 | 0.67 | 0.66 |
| Hungary | HUF | 100 | 0.64 | 0.60 |
| Poland | PLN | 100 | 41.97 | 40.42 |
| Czech Republic | CZK | 100 | 5.84 | 5.56 |

2.7 Net sales and revenue recognition

Net sales include all revenues from the sale of goods, less discounts, sales tax and deductions including credit card commissions and other price concessions. Earnings are recorded at the cash desk when the goods are handed over to customers.

2.8 Cost of goods

The cost of goods includes the purchase price (before discounts) plus transport and other procurement costs for products sold in the period under review, inventory differences, changes in value adjustments on stocks and processing costs of new garments. This cost item includes no personnel costs.

2.9 Employee pension plans

Within the Charles Vögele Group there are various defined benefit and defined contribution pension plans based on the regulations of the different countries concerned.

For defined benefit pension plans the coverage surplus or deficit recorded in the balance sheet is equivalent to the present value of defined benefit obligations (DBO) on the balance sheet date less the fair value of plan assets, adjusted for as yet unrecorded accumulated actuarial gains and losses and for unrecognized prior service costs. The DBO is calculated at least every three years by an independent actuary using the projected unit credit method. Actuarial gains and losses as well as alterations to asset limits are booked to the income statement over the employees' remaining average employment period as long as they exceed 10% of the value of plan assets or 10% of benefit-related liabilities. If there is a coverage surplus, the future economic benefit of this surplus is assessed and a value adjustment made if necessary.

For defined contribution plans, the Group pays contributions to a public or private pension insurance scheme either on the basis of a legal or contractual obligation, or voluntarily. The Group has no further payment obligations beyond the payment of these contributions. Contributions are recorded under personnel expenses when they fall due.

2.10 Advertising

Advertising expenses are recorded in the income statement on the date the advertisement is published.

2.11 Financial expenses

Interest costs are charged directly to the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash held at stores and cash balances from current business activity with original maturities of less than three months. Cash held on sight at banks is managed through a group-wide cash-pooling system. Foreign currency positions are valued at the exchange rate as of December 31.

2.13 Receivables and advance payments

Charles Vögele Group normally does not carry customer receivables since the vast majority of sales to customers are cash sales. Receivables and advance payments are recognized initially at fair value (normally the nominal value) less necessary value adjustments. A value adjustment is made when it becomes probable that the whole nominal sum cannot be collected. Receivables are usually derecognized in full if the creditor is subject to insolvency or bankruptcy proceedings.

2.14 Inventories

Inventories are valued at the lower of cost or net realizable value. Purchase costs include the actual purchase price plus imputed transport and other procurement costs, less discounts received, and are defined on the basis of the average cost method. The net realizable value is the estimated sales revenue that can be achieved in normal business, less the necessary variable sales cost. An inventory valuation system is used to take into account the ageing structure of the inventory. Purchases of goods in foreign currencies are converted at the exchange rate on the date of the transaction or at the hedged exchange rate of the goods purchased.

2.15 Derivative financial instruments and hedge accounting

Derivatives are initially recognized at current market value on the date of purchase and subsequently at their fair value. With the exception of derivative financial instruments which meet the requirements of a cash flow hedge, all adjustments are recognized in financial income or expense.

In order to recognize a transaction as a hedge, the Charles Vögele Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, including the risk management strategy and an assessment of effectiveness.

The Charles Vögele Group uses hedge accounting for cash flow hedges which are classified as highly effective, for which the effect can be measured reliably and for which future cash flows have a high probability to occur.

The effective portion of changes in the fair value of the hedging instrument, designated as a cash flow hedge is recognized in equity. The ineffective portion of the change in value is recognized in the income statement.

The amounts shown under shareholders' equity are charged to the income statement in the period in which the underlying transaction is also booked, except in the case of non-monetary assets in the initial valuation on purchase costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the underlying transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative recorded gain or loss in equity is immediately transferred to the income statement.

2.16 Tangible assets

Land and buildings

Land and buildings include properties in Switzerland that are used mainly as stores, as well as distribution centres in Switzerland, Germany and Austria. Land and buildings are recognized at acquisition cost less accumulated depreciation for buildings and any impairments (see Note 2.19). This valuation is periodically checked by an independent external expert. Buildings are depreciated on a straight-line basis over a period of 40 years. Buildings in leasehold are depreciated over the leasehold period up to a maximum of 40 years. Land is not depreciated.

Equipment

Equipment includes store fittings, technical warehouse equipment, computer hardware, office fixtures and fittings and other tangible assets used in operations. They are capitalized if the company derives a future economic benefit associated with them. Valuation is at acquisition cost less accumulated depreciation and impairments if necessary (see Note 2.19). The depreciation period is carried out using the straight-line method and is normally based on useful operating life as follows:

| | |
|--|----------|
| Building and equipment such as fixtures and fittings of stores, warehouses and offices | 10 years |
| Computer hardware | 5 years |

2.17 Financial instruments (assets)

All purchases and sales of financial assets are recognized on the day the Group commits to the purchase or sale. Financial assets that are not recorded in the income statement at fair value are recognized on purchase at fair value plus transaction costs. Financial assets that are recorded in the income statement at fair value are initially recognized at fair value, which is usually equivalent to the purchase price, and transaction costs are charged to the income statement. Financial assets are derecognized as soon as the rights to cash flows from the asset expire or are transferred and the Group has assigned all the material risks and benefits associated with ownership thereof.

Financial assets are divided into the following four categories. The choice of category depends on the purpose for which the financial assets was acquired.

Financial assets held at fair value recognized through the income statement

This category includes derivative financial instruments that are not assigned to hedge accounting. Any changes in value are recognized in the income statement. Charles Vögele Group does not designate any financial assets to this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with determinable payments that are not quoted on an active market. They are shown under current assets provided their maturity is not more than twelve months after the balance sheet date. Otherwise they are shown as long-term assets. In the Group balance sheet, the position "Receivables, advance payments and prepaid expenses" (see Note 18) are recorded under this category. Loans and receivables are recognized at amortized cost.

Financial assets held to maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that Charles Vögele Group wants to and can hold to maturity. Charles Vögele Group did not hold any assets in this category in the 2006 and 2007 financial years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that have been assigned to this category or that have not been assigned to any of the other categories. They are carried as long-term assets unless there is a plan to sell them within 12 months of the balance sheet date. The investments shown for 2006 and 2007 are recorded under this category (see Note 21).

2.18 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition of a company or of business activities in the form of net assets over the fair value of the Group's share of the net identifiable assets of the acquired company or business activities at the date of acquisition. From 2005, goodwill is no longer depreciated regularly but is subject to an annual impairment test even if no evidence of an impairment exists (see Note 2.19).

Other intangible assets

Other intangible assets include IT software, trademarks and licenses. They are capitalized if the company derives a future economic benefit from them and their historical purchase costs can be valued reliably. IT software developed in-house is not shown in the balance sheet; the personnel expenses of own staff are recognized as costs in the income statement when they occur.

Other intangible assets have a defined useful life and are carried at cost less accumulated depreciation and any impairments (see Note 2.19). IT software is depreciated using the straight-line method over five years; licenses and trademarks are depreciated over their estimated useful life.

2.19 Impairment of assets

All capitalized assets are reviewed annually for indications that the carrying amount may not be recoverable. When there is evidence of impairment, an impairment test is carried out. An impairment test is also carried out on goodwill positions even if there is no evidence of impairment (see Note 2.18). This test identifies the recoverable amount; if this is less than the carrying amount, an impairment cost equivalent to the difference between the carrying amount and the recoverable amount is charged to the income statement as an impairment cost.

Recoverable amount

The recoverable amount is the higher of the value in use and the fair value less costs to sell.

Value in use

The value in use is the present value of estimated future cash flow that can be expected from the continued use of the asset and from its disposal at the end of its useful life.

Fair value less costs to sell

The fair value less costs to sell is the amount for which an asset can be sold in a transaction under normal market conditions between knowledgeable and willing contracting parties, less costs of sale.

2.20 Deferred taxes

Deferred taxes, which are calculated using the liability method, are used for all temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the IFRS financial statements. Deferred taxes are determined using tax rates (and tax laws) that apply on the balance sheet date, or that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets from loss carry-forwards are recognized to the extent that it is probable that a taxable profit will be available in the foreseeable future against which the temporary differences can be utilized.

Deferred tax liabilities arising from temporary differences relating to investments in subsidiaries are applied, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

2.21 Trade payables

Trade payables are valued at the foreign exchange rate as of December 31. Cash discounts earned are recognized in the income statement at the time of payment as "Other operating income".

2.22 Financial liabilities

Financial liabilities include short-term financial liabilities, liabilities from finance leases, mortgages and loans. They are recognized initially at fair value, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as financial income or expense in the income statement over the period of the borrowings using the effective interest method.

Financial liabilities are classified as short-term liabilities as long as the contractual term is less than twelve months and the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.23 Provisions

Provisions are recognized in the balance sheet when a current liability arises based on an event which has occurred in the past, when it is likely that a drain of resources will occur if the liability is met, and when the amount of the liability can be assessed reliably.

If interest represents a significant part of the expected expenses, the provisions are recognized on a discounted value basis.

2.24 Leasing

Finance leasing

Leasing objects that are financed over the assessed useful life of the asset, and where ownership is transferred to the Group after expiry of the usually non-cancelable contract, are carried as finance leases under tangible assets (see Note 2.22). Acquisition costs are depreciated using the straight-line method over the

useful life or contractual life of the asset, whichever is shorter. The liabilities are recorded on the balance sheet at discounted present value. All leasing commitments not included under finance leasing are classified as operating leasing.

Operating leasing

Operating leasing includes leases where all risks and rewards associated with ownership of the asset rest with an independent third party. Operating lease payments are charged to the income statement.

2.25 Treasury shares

The costs of treasury shares of Charles Vögele Holding AG purchased by any Group company are deducted from the Group's shareholders' equity (see "Treasury shares" under the consolidated statement of changes in Group equity) until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, the difference between the proceeds and the original purchase price is included as retained earnings in the Group's equity capital with no effect on the income statement.

2.26 Valuation of share option plan

The Group operates an equity-settled, share-based compensation plan (see Note 34). The fair value of issued options is recognized proportionally over the vesting period under personnel expenses in the income statement and under shareholders' equity. Fair value is assessed using the Enhanced American Model (EA Model), which accords with generally accepted valuation methods for determining share option prices and which takes into account all the factors and assumptions that reasonable contracting market participants would consider when setting prices. When options are exercised or expire, the fair value originally booked to shareholders' equity is charged against retained earnings.

3 Financial risk management

Charles Vögele Group is exposed to various financial risks, including market risks (currency and interest rate risks), credit risks and liquidity risks. Charles Vögele Group's general risk management is focused on the unpredictability developments on the financial market and its aim is to reduce the potential negative impact on financial results. The tools that the Group uses to do this include derivative financial instruments.

Financial risk management is carried out by the Treasury Department. The Group Treasurer identifies, values and hedges the financial risks within the given guidelines.

3.1 Currency risks

Charles Vögele Group's main currency exposures are to the USD and EUR. The USD risk is limited to the purchase of goods since only purchases and no sales are made in USD. In order to reduce this risk the Group enters into forward foreign exchange contracts and currency swaps. These cover almost 100% of USD requirements based on planned purchases of goods for the spring/summer and

autumn/winter seasons. The EUR and other foreign currencies are consolidated at Group level, continuously monitored and hedged where necessary.

Subsequent sensitivity analyses show the material foreign currency risks to which Charles Vögele Group is exposed on the balance sheet date, as well as the implications for the consolidated result and shareholders' equity.

| CHF 1000 | EUR/CHF | USD/CHF | PLN/CHF | HUF/CHF | CZK/CHF |
|---|----------------|-----------------|--------------|--------------|----------------|
| Total group foreign currency exposures 31.12.2006 | 308 535 | (3 529) | 4 618 | 4 650 | 3 919 |
| Average between annual high and low exchange rate compared to balance sheet rate | 2.0% | 5.0% | 5.5% | 7.0% | 4.5% |
| Total effect on group earnings in 2006 at increasing foreign currency rate | 6 171 | (176) | 254 | 326 | 176 |
| Total effect on group earnings in 2006 at declining foreign currency rate | (6 171) | 176 | (254) | (326) | (176) |
| Derivative financial instruments as cash flow hedges | | 164 101 | | | |
| Total effect on consolidated group equity as of 31.12.2006 at increasing foreign currency rate | | 8 205 | | | |
| Total effect on consolidated group equity as of 31.12.2006 at declining foreign currency rate | | (8 205) | | | |
| CHF 1000 | EUR/CHF | USD/CHF | PLN/CHF | HUF/CHF | CZK/CHF |
| Total group foreign currency exposures 31.12.2007 | 221 555 | (2 419) | 4 703 | 14 915 | 17 377 |
| Average between annual high and low exchange rate compared to balance sheet rate | 3.0% | 7.5% | 6.5% | 4.0% | 6.0% |
| Total effect on group earnings in 2007 at increasing foreign currency rate | 6 647 | (181) | 306 | 597 | 1 043 |
| Total effect on group earnings in 2007 at declining foreign currency rate | (6 647) | 181 | (306) | (597) | (1 043) |
| Derivative financial instruments as cash flow hedges | | 135 379 | | | |
| Total effect on consolidated group equity as of 31.12.2007 at increasing foreign currency rate | | 10 153 | | | |
| Total effect on consolidated group equity as of 31.12.2007 at declining foreign currency rate | | (10 153) | | | |

3.2 Interest risks

Charles Vögele Group has no significant interest-bearing assets, so changes in market interest rates have little effect on earnings or operating cash flows.

Charles Vögele Group's interest rate risk stems mainly from its bank loans, mortgages and leasing liabilities. Long-term interest-bearing financial liabilities with variable interest rates expose the Group to a cash flow interest risk, while fixed-rate liabilities represent a fair value interest risk. The mortgages, leasing liabilities and loans are mainly fixed rate liabilities. The loans outstanding at the end of the year are not representative of the year as a whole. The company's funding requirements increase at the start of a selling season as products are purchased, and then decline proportionally towards the end of the season as the products are sold. At the end of the year, most financial liabilities had fixed interest rates, so changes in interest rates had no significant effect on the income statement or shareholders' equity.

The Group Management sets itself the goal of covering on average about 50% of its borrowing needs with long-term fixed-rate instruments. Interest rate hedging transactions are used where necessary.

3.3 Credit risks

Credit risks can arise from the following balance sheet positions: cash and cash equivalents, receivables and advance payments, and financial assets. Charles Vögele Group is not exposed to any noteworthy credit risk since the vast majority of sales to customers are settled in cash or by the major debit and credit cards. Processing and payment is carried out through local financial services providers within two or three days. Financial institutions and financial services providers usually have to have at least an "A" rating before Charles Vögele Group will consider using them for banking business. Any risks arising from cash and cash equivalents are further minimized by the use of a variety of local financial services providers rather than a single banking institution.

Risks can arise from cash at the stores and in transporting these cash takings to the financial institutions. Cash holdings (takings, change) in the stores are kept in safes and kept to a minimum through regular or as-needed transfers of the cash takings. The risk of theft by own or third-party personnel has been reduced further by the installation of an effective internal control system. Cash holdings in the safes are insured to an appropriate level against theft and acts of God, and are replaced if lost. When choosing firms to transport money and valuables, Charles Vögele Group's selection criteria are based on quality, transparency, security and comprehensive insurance protection.

Receivables from tax refunds (value added tax) are secured by regularly verifying that declarations are formally correct and by submitting the necessary declarations on time. Prepayments to suppliers and other claims are checked regularly and any identified credit risk is taken into account through a value adjustment (see Note 2.13).

3.4 Liquidity risks

Owing to seasonal fluctuations in monthly revenues and the pre-financing of goods purchasing, cash flow varies greatly across the financial year. A continuously updated liquidity plan is in place to manage these liquidity risks. This plan is based on the annual budgeted figures for sales, costs and investments. In order to meet the necessary short-term liabilities, Charles Vögele Group keeps a permanent liquidity reserve of about CHF 30 to 50 million.

On the balance sheet date, Charles Vögele Group had the following liquidity reserves:

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|--|----------------|----------------|
| Net cash and cash equivalents at the end of the period | 41 013 | 27 128 |
| Syndicated credit line agreement | 225 000 | 250 000 |
| ./. Credit lines used | (62 500) | (40 000) |
| Additional credit lines | 19 288 | 19 873 |
| ./. Credit lines used | (743) | (14 948) |
| Total cash reserves and unused credit lines | 222 058 | 242 053 |

The following future outflow of funds is expected from the financial liabilities shown at the balance sheet date:

| CHF 1000 | < 1 year | 1-5 years | > 5 years | Total |
|---|----------------|----------------|---------------|----------------|
| Short-term bank liabilities | 743 | 0 | 0 | 743 |
| Trade payables | 60 317 | 0 | 0 | 60 317 |
| Other liabilities and accruals (excl. vouchers) | 58 238 | 0 | 0 | 58 238 |
| Finance lease liabilities, gross | 9 107 | 31 439 | 28 054 | 68 600 |
| Mortgages | 16 509 | 26 278 | 58 000 | 100 787 |
| Loans | 734 | 62 500 | 0 | 63 234 |
| Total as of 31.12.2006 | 145 648 | 120 217 | 86 054 | 351 919 |

| CHF 1000 | < 1 year | 1-5 years | > 5 years | Total |
|---|----------------|---------------|---------------|----------------|
| Short-term bank liabilities | 14 948 | 0 | 0 | 14 948 |
| Trade payables | 61 714 | 0 | 0 | 61 714 |
| Other liabilities and accruals (excl. vouchers) | 54 889 | 0 | 0 | 54 889 |
| Finance lease liabilities, gross | 6 668 | 30 588 | 25 112 | 62 368 |
| Mortgages | 21 746 | 8 307 | 73 000 | 103 053 |
| Loans | 715 | 40 000 | 0 | 40 715 |
| Total as of 31.12.2007 | 160 680 | 78 895 | 98 112 | 337 687 |

The following future outflow of funds is expected from the forward currency contracts outstanding on the balance sheet date:

| CHF 1000 | < 1 year | 1-5 years | > 5 years | Total |
|----------------------------------|-----------|-----------|-----------|-----------|
| Balance 31.12.2006 | | | | |
| Derivative for cash flow hedges: | | | | |
| – Cash outflow (contract value) | 192 252 | 0 | 0 | 192 252 |
| – Cash inflow (fair value) | (193 060) | 0 | 0 | (193 060) |
| Derivative for trading purposes: | | | | |
| – Cash outflow (contract value) | 157 681 | 0 | 0 | 157 681 |
| – Cash inflow (fair value) | (160 112) | 0 | 0 | (160 112) |

| CHF 1000 | < 1 year | 1-5 years | > 5 years | Total |
|----------------------------------|-----------|-----------|-----------|-----------|
| Balance 31.12.2007 | | | | |
| Derivative for cash flow hedges: | | | | |
| – Cash outflow (contract value) | 166 483 | 0 | 0 | 166 483 |
| – Cash inflow (fair value) | (159 269) | 0 | 0 | (159 269) |
| Derivative for trading purposes: | | | | |
| – Cash outflow (contract value) | 80 188 | 0 | 0 | 80 188 |
| – Cash inflow (fair value) | (82 600) | 0 | 0 | (82 600) |

3.5 Capital risks

The primary aim of capital management is to ensure that Charles Vögele Group can continue to operate sustainably and so meet the needs of its various stakeholders over the long term. The company's capital structure takes appropriate account of the business risks inherent in the Group's business model.

In order to achieve these objectives, Charles Vögele Group can adjust its dividend payments, pay capital back to shareholders, issue new shares, take out loans with financial institutions, pay such loans back ahead of schedule, place financing on the capital market or sell assets in order to reduce debts.

Charles Vögele Group monitors its capital structure on the basis of net debt. Net debt itself is calculated as the sum of short- and long-term loans from financial institutions, mortgages and lease liabilities, less cash and cash equivalents.

Charles Vögele Group's goal is to ensure that the relation between net debt and EBITDA does not exceed factor two. At the balance sheet date, the key figures were as follows:

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|--|----------------|----------------|
| Short-term financial liabilities | 7 187 | 19 085 |
| Finance lease liabilities | 46 475 | 44 333 |
| Mortgages | 93 240 | 95 000 |
| Loans | 61 596 | 39 303 |
| Cash and cash equivalents | (41 756) | (42 076) |
| Net liability | 166 742 | 155 645 |
| EBITDA | 143 058 | 156 190 |
| Net liability / EBITDA (factor) | 1.17 | 1.00 |
| Shareholders' equity (see page 5) | 488 665 | 523 282 |
| Net liability / Shareholders' equity (factor) | 0.34 | 0.30 |

3.6 Determining fair value

The publicly quoted market price on the balance sheet date is used to determine the fair value of financial instruments that are traded on an active market.

For financial instruments that are not traded on an active market, valuation methods that give the most realistic valuations are used. This category is not materially significant for Charles Vögele Group.

Short-term financial receivables and liabilities are recognized at nominal value less any value adjustments. Owing to the short-term maturities involved, this is roughly equivalent to the fair value.

4 Critical accounting estimates and assumptions

When preparing the consolidated financial statements, estimates and assumptions have to be made which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates and assumptions are continuously reviewed. Estimates have to be changed when the circumstances on which they were based change, or if new information or additional findings come to light. Such changes are made in the reporting period in which the estimate was altered.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

4.1 Goodwill

In accordance with the accounting and valuation methods stated in Notes 2.18 and 2.19, the Group tests annually whether the goodwill carried in the balance sheet has suffered an impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are based on assumptions about the expected free cash flow (see Note 22.2).

4.2 Income tax

In order to determine the assets and liabilities from current and deferred income taxes, estimates have to be made because there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Some of these estimates are based on interpretation of existing tax laws and rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will influence the income tax and deferred tax provisions in the period in which such determination is made (see Note 15).

4.3 Legal cases

Charles Vögele Group is involved in a number of legal cases. It sets up provisions for ongoing and pending lawsuits if independent experts are of the opinion that a financial risk is tangible and the amount at risk can be evaluated (see Note 27). Additional accruals are set up to cover estimated costs for legal expenses. The estimated risk connected with these pending lawsuits is covered in full.

4.4 Inventories

At the balance sheet date, estimations have to be made for the valuation of inventories. Beside the existing inventory valuation system, which takes into account the aging structure of the inventory, the net realizable value is estimated. The estimations are considering intended sales promotions and are based on the most reliable evidence available to estimate the net realizable amount (see Note 2.14 and 19.1).

5 Segment reporting

Fiscal year 2007

| CHF 1000 | Sales organizations | Central services | Consolidation entries | Group |
|---|---------------------|------------------|-----------------------|-----------|
| Net sales | 1 393 636 | 708 820 | (708 766) | 1 393 690 |
| Operating earnings before depreciation (EBITDA) | 84 238 | 72 807 | (855) | 156 190 |
| EBITDA in % of net sales | 6.0% | 10.3% | 0 | 11.2% |
| Operating earnings (EBIT) | 31 605 | 64 072 | (855) | 94 822 |
| EBIT in % of net sales | 2.3% | 9.0% | 0 | 6.8% |
| Depreciation | (52 162) | (8 735) | 0 | (60 897) |
| Impairment | (471) | 0 | 0 | (471) |
| Cash flow from operating activities | 58 394 | 76 772 | (23 667) | 111 499 |
| Operating assets ¹⁾ | 749 871 | 175 782 | (75 019) | 850 634 |
| Operating liabilities ²⁾ | 166 158 | 57 989 | (78 468) | 145 679 |
| Tangible assets ³⁾ | 420 738 | 22 664 | 0 | 443 402 |
| Net investments | 61 324 | 11 166 | 0 | 72 490 |

| CHF 1000 | Switzerland | Germany | Belgium/ Netherlands | Austria | Eastern Europe | Total sales organizations |
|---|-------------|----------|-------------------------|---------|----------------|---------------------------|
| Net sales | 452 070 | 458 054 | 183 963 | 259 623 | 39 926 | 1 393 636 |
| Operating earnings before depreciation (EBITDA) | 67 584 | 5 833 | (2 053) | 12 855 | 19 | 84 238 |
| EBITDA in % of net sale | 14.9% | 1.3% | (1.1%) | 5.0% | 0.0% | 6.0% |
| Operating earnings (EBIT) | 51 804 | (13 632) | (10 839) | 5 751 | (1 479) | 31 605 |
| EBIT in % of net sales | 11.5% | (3.0%) | (5.9%) | 2.2% | (3.7%) | 2.3% |
| Depreciation | (15 780) | (19 112) | (8 786) | (6 986) | (1 498) | (52 162) |
| Impairment | 0 | (353) | 0 | (118) | 0 | (471) |
| Cash flow from operating activities | 63 854 | 3 720 | (3 226) | 4 389 | (10 343) | 58 394 |
| Operating assets ¹⁾ | 288 833 | 235 681 | 83 626 | 105 477 | 36 254 | 749 871 |
| Operating liabilities ²⁾ | 46 623 | 56 298 | 18 705 | 36 135 | 8 397 | 166 158 |
| Tangible assets ³⁾ | 197 388 | 115 646 | 41 032 | 48 251 | 18 421 | 420 738 |
| Net investments | 14 957 | 18 398 | 10 325 | 8 496 | 9 148 | 61 324 |

¹⁾ Trade receivables, inventories, other receivables without financing characteristics, tangible and intangible assets

²⁾ Trade payables, provisions and other payables without financing characteristics

³⁾ Tangible assets are included in the position "Operating assets"

Fiscal year 2006

| CHF 1000 | Sales organizations | Central services | Consolidation entries | Group |
|---|---------------------|------------------|-----------------------|-----------|
| Net sales | 1 323 647 | 686 823 | (686 823) | 1 323 647 |
| Operating earnings before depreciation (EBITDA) | 75 517 | 75 980 | (8 439) | 143 058 |
| EBITDA in % of net sales | 5.7% | 11.1% | 0 | 10.8% |
| Operating earnings (EBIT) | (48 160) | 68 506 | (8 663) | 11 683 |
| EBIT in % of net sales | (3.6%) | 10.0% | 0 | 0.9% |
| Depreciation | 47 366 | 7 474 | 224 | 55 064 |
| Impairment | 76 311 | 0 | 0 | 76 311 |
| Cash flow from operating activities | 20 344 | 51 491 | 1 661 | 73 496 |
| Operating assets ¹⁾ | 720 735 | 197 898 | (97 151) | 821 482 |
| Operating liabilities ²⁾ | 186 870 | 61 455 | (110 498) | 137 827 |
| Tangible assets ³⁾ | 403 062 | 21 563 | 0 | 424 625 |
| Net investments | 53 672 | 17 439 | 0 | 71 111 |

| CHF 1000 | Switzerland | Germany | Belgium/ Netherlands | Austria | Eastern Europe | Total sales organizations |
|---|-------------|----------|-------------------------|---------|----------------|---------------------------|
| Net sales | 451 396 | 451 050 | 157 993 | 248 543 | 14 665 | 1 323 647 |
| Operating earnings before depreciation (EBITDA) | 63 842 | 3 553 | (3 911) | 13 783 | (1 750) | 75 517 |
| EBITDA in % of net sale | 14.1% | 0.8% | (2.5%) | 5.5% | (11.9%) | 5.7% |
| Operating earnings (EBIT) | 47 204 | (15 916) | (84 293) | 7 095 | (2 250) | (48 160) |
| EBIT in % of net sales | 10.5% | (3.5%) | (53.4%) | 2.9% | (15.3%) | (3.6%) |
| Depreciation | 15 964 | 18 582 | 5 863 | 6 457 | 500 | 47 366 |
| Impairment | 674 | 887 | 74 519 | 231 | 0 | 76 311 |
| Cash flow from operating activities | 41 406 | (6 555) | (7 529) | 72 | (7 050) | 20 344 |
| Operating assets ¹⁾ | 295 942 | 229 159 | 79 024 | 99 164 | 17 446 | 720 735 |
| Operating liabilities ²⁾ | 54 836 | 62 266 | 18 134 | 47 392 | 4 242 | 186 870 |
| Tangible assets ³⁾ | 198 192 | 112 253 | 37 025 | 45 873 | 9 719 | 403 062 |
| Net investments | 17 659 | 14 576 | 6 782 | 5 351 | 9 304 | 53 672 |

¹⁾ Trade receivables, inventories, other receivables without financing characteristics, tangible and intangible assets

²⁾ Trade payables, provisions and other payables without financing characteristics

³⁾ Tangible assets are included in the position "Operating assets"

6 Personnel expenses

| CHF 1000 | 2006 | 2007 |
|--------------------------|----------------|----------------|
| Wages and salaries | 245 237 | 259 894 |
| Social security costs | 42 802 | 45 308 |
| Other personnel expenses | 11 514 | 12 717 |
| Total | 299 553 | 317 919 |

6.1 Defined contribution retirement plans

Charles Vögele Group's Dutch group company has an independent industry pension plan. As there is no reliable basis for allocating the plan's assets to the individual participating companies, this plan is treated in these financial statements as a defined contribution plan.

The cost of pension liabilities charged through personnel expenses in Belgium and the Netherlands amounted to CHF 2.0 million in 2007 and CHF 1.9 million in 2006.

6.2 Defined benefit retirement plans

All Swiss Group companies have legally separate pension schemes with an independent external provider who carries full reinsurance cover. According to local law these are defined contribution plans, but under IFRS they are treated as defined benefit plans.

The actuarial valuations are based on the following weighted average assumptions:

| | 2006 | 2007 |
|--|-----------|-----------|
| Discount rate | 3.5% | 3.5% |
| Expected return on plan assets | 4.3% | 4.3% |
| Expected future salary increases | 1.0% | 1.0% |
| Expected future pension increases | 0.5% | 0.5% |
| Actuarial base | EVK 2000 | EVK 2000 |
| Average retirement age in years | M65 / F64 | M65 / F64 |
| Life expectancy at assumed retirement age in years | M18 / F21 | M18 / F21 |

The pension liabilities and plan assets are as follows:

| CHF 1000 | 2006 | 2007 |
|--|-----------------|-----------------|
| Present value of funded obligation (DBO), as of January 1 | (80 929) | (85 379) |
| Service cost | (7 592) | (7 834) |
| Interest cost | (3 098) | (3 262) |
| Benefits paid | 6 240 | 9 254 |
| Present value of funded obligation (DBO), as of December 31 | (85 379) | (87 221) |
| Fair value of plan assets, as of January 1 | 83 426 | 88 620 |
| Expected return on plan assets | 3 546 | 3 766 |
| Employees' contributions | 3 538 | 3 723 |
| Employer's contributions | 4 050 | 4 241 |
| Benefits paid | (6 240) | (9 254) |
| Actuarial gain (loss) on plan assets | 300 | (3 865) |
| Fair value of plan assets, as of December 31 | 88 620 | 87 231 |

The expenses recognized in the income statement that result from the actuarial calculation of the liabilities of defined benefit retirement plans are as follows:

| CHF 1000 | 2006 | 2007 |
|--|--------------|--------------|
| Service cost | 7 592 | 7 834 |
| Interest cost | 3 098 | 3 262 |
| Expected return on plan assets | (3 546) | (3 766) |
| Actuarial (gain)/loss on plan assets | (300) | 3 865 |
| Increase/(decrease) not capitalized portion of the over-coverage | 744 | (3 231) |
| Net periodic pension cost | 7 588 | 7 964 |
| Employee's contributions | (3 538) | (3 723) |
| Expenses recognized in the income statement | 4 050 | 4 241 |

Premiums owed are actuarially calculated and are based on prevailing conditions.

The surpluses and deficits shown in the balance sheet for coverage of staff pension liabilities of defined benefit retirement plans are as follows:

| CHF 1000 | 31.12.2005 | 31.12.2006 | 31.12.2007 |
|---|--------------|--------------|------------|
| Present value of funded obligations (DBO) | (80 929) | (85 379) | (87 221) |
| Fair value of plan assets | 83 426 | 88 620 | 87 231 |
| Over-/(under-)coverage | 2 497 | 3 241 | 10 |
| Not capitalized portion of the over-coverage | (2 497) | (3 241) | (10) |
| Over-/(under-)coverage recognized in the balance sheet | 0 | 0 | 0 |
| Experience adjustments on plan liabilities | 0 | 0 | 0 |
| Experience adjustments on plan assets | 3 317 | 300 | (3 865) |

The above surplus concerns the Swiss pension scheme. Legal requirements restrict the utilization of overfunded amounts in legally separate benefit plans. Since no future economic benefit to the employer is foreseeable, the over-coverage was not capitalized in the balance sheet.

Movements in the net liabilities for the defined benefit retirement plan shown in the balance sheet are as follows:

| CHF 1000 | 2006 | 2007 |
|--|----------|----------|
| Net liability in balance sheet, as of January 1 | 0 | 0 |
| Expense recognized in the profit and loss statement | 4 050 | 4 241 |
| Employer's contributions | (4 050) | (4 241) |
| Net liability in balance sheet, as of December 31 | 0 | 0 |

The asset allocation for pension assets is as follows:

| | 2006 | 2007 |
|--------------|---------------|---------------|
| Cash | 3.7% | 7.8% |
| Bonds | 54.1% | 54.9% |
| Equities | 31.2% | 26.8% |
| Property | 11.0% | 10.5% |
| Other | 0.0% | 0.0% |
| Total | 100.0% | 100.0% |

The number of the company's own shares included in the pension assets as of 31.12.2007 is 142; CHF 13 185 (as of 31.12.2006: 82 CHF 7 962).

The effective loss on assets was CHF 0.1 million (previous year: gain CHF 3.8 million). The expected employer contributions for the 2008 financial year are estimated at CHF 4.1 million.

The pension liability of the German Group company is governed by national regulations and is a defined benefit scheme. No additional calculation based on IFRS accounting principles of provisions for future liabilities are made, because in the context of the consolidated financial statements the liabilities relate to an insignificantly small group of 17 employees only (2006: 16 employees). The 2007 income statement of the Group company is charged with contributions amounting to CHF 0.1 million (2006: CHF 0.1 million).

7 Rental expenses

| CHF 1000 | 2006 | 2007 |
|--|----------------|----------------|
| Rent | 161 139 | 173 012 |
| Incidental expenses, cleaning, maintenance | 49 776 | 53 720 |
| Total | 210 915 | 226 732 |

The CHF 15.8 million year-on-year increase in rental expenses is due primarily to the expansion of the branch network, index adjustments and price rises relating to ancillary premises costs.

8 Advertising and promotion expenses

Advertising and promotion expenses include costs for product-oriented advertising, sales promotion, public relation and market research by external providers. The CHF 14.3 million year-on-year rise is mainly due to the greater marketing activities during the year under review.

9 General operating expenses

General operating expenses include operating lease expenses amounting to CHF 3.4 million (2006: CHF 3.1 million). Operating leases mainly concern vehicles.

10 Other operating income

| CHF 1000 | 2006 | 2007 |
|---|---------------|---------------|
| Operating financial income | 26 514 | 26 516 |
| Operating real estate income, net | 1 803 | 1 166 |
| Redemption compensation less costs for store closings | 775 | 1 083 |
| Compensation for legal cases | 272 | 0 |
| Other income | 87 | (15) |
| Total | 29 451 | 28 750 |

Operating financial income includes vendor discounts from accounts payable less the cost of cash deposits from cash transactions in stores and bank fees.

11 Impairment

| CHF 1000 | 2006 | 2007 |
|--|---------------|------------|
| Impairment losses for store fixtures and fittings of branch closures planned during the next years | 1 882 | 471 |
| Impairment of goodwill (see Note 22.2) | 74 429 | 0 |
| Total | 76 311 | 471 |

12 Financial income

| CHF 1000 | 2006 | 2007 |
|---------------------------------|------------|------------|
| Interest income | 883 | 816 |
| Interest income from securities | 7 | 8 |
| Total | 890 | 824 |

13 Financial expenses

| CHF 1000 | 2006 | 2007 |
|---|---------------|---------------|
| Interest expenses on current accounts and loans | 5 210 | 5 974 |
| Interest charges on mortgages | 3 037 | 3 289 |
| Interest on leases | 2 893 | 2 826 |
| Total | 11 140 | 12 089 |

14 Foreign exchange differences

| CHF 1000 | 2006 | 2007 |
|--|--------------|----------------|
| Expense from foreign exchange contracts | (1 501) | (1 077) |
| Other exchange gains/(losses) | 611 | (2 167) |
| Total income/(expense) from exchange gains/(losses) | (890) | (3 244) |

15 Tax

15.1 Composition of tax expense

| CHF 1000 | 2006 | 2007 |
|--------------------------|---------------|---------------|
| Current income taxes | 18 676 | 18 979 |
| Change in deferred taxes | (272) | 941 |
| Tax from previous years | 1 819 | (581) |
| Total tax expense | 20 223 | 19 339 |

15.2 Analysis of tax expense

| CHF 1000 | 2006 | 2007 |
|---|---------------|---------------|
| Profit before income taxes | 543 | 80 313 |
| Taxes on current profit calculated on the expected weighted average group tax rate of 22% (2006: 22%) | 119 | 17 669 |
| Reconciliation: | | |
| – Effect of weighting of the different actual effective local tax rates | (9 495) | (8 155) |
| – Effect of change in tax rates on deferred taxes in the balance sheet | (1 368) | 948 |
| – Effect of deferred tax assets not capitalized, net | 28 695 | 9 098 |
| – Effect of other non-taxable transactions | 269 | 380 |
| – Taxes payable (refunds) from previous years | 1 819 | (581) |
| – Adjustments of deferred taxes from previous years | 184 | (20) |
| Total tax expense | 20 223 | 19 339 |

The table above shows the numerical reconciliation between the expected and thereported tax expense. The significant difference between reported and expected tax expense in the previous year reflects mainly the non-capitalization of deferred taxes of CHF 17.7 million on the impairment cost of goodwill in the Netherlands (see Note 22.2)

15.3 Deferred taxes in the balance sheet

| CHF 1000 | 31.12.2006 Assets | 31.12.2006 Liabilities | 31.12.2007 Assets | 31.12.2007 Liabilities |
|------------------------------------|----------------------|---------------------------|----------------------|---------------------------|
| Deferred taxes from: | | | | |
| – Various receivables | 2 | 0 | 2 | 0 |
| – Inventories | 9 117 | (20 002) | 9 403 | (19 207) |
| – Goodwill | 30 974 | 0 | 25 646 | 0 |
| – Other long-term assets | 4 | (13 805) | 8 | (14 221) |
| – Real estate | 0 | (10 800) | 0 | (10 352) |
| – Derivative financial instruments | 0 | (181) | 1 200 | (1 082) |
| – Intercompany loans | 3 451 | 0 | 2 644 | 0 |
| – Accruals | 248 | (138) | 150 | (53) |
| – Provisions | 1 388 | 0 | 1 410 | 0 |
| – Treasury shares | 158 | 0 | 0 | (256) |
| – Loss carry-forwards | 101 824 | 0 | 100 250 | 0 |
| Total deferred taxes, gross | 147 166 | (44 926) | 140 713 | (45 171) |
| Impairment of deferred tax assets | (128 232) | 0 | (121 069) | 0 |
| Total deferred taxes | 18 934 | (44 926) | 19 644 | (45 171) |
| Offset of assets and liabilities | (4 034) | 4 034 | (4 529) | 4 529 |
| Total deferred taxes, net | 14 900 | (40 892) | 15 115 | (40 642) |

15.4 Change in deferred taxes, net

| CHF 1000 | 2006 | 2007 |
|---|-----------------|-----------------|
| Total deferred tax assets/(liabilities), net, as of January 1 | (27 176) | (25 992) |
| Effect of exchange rates | 236 | 221 |
| Recognized in income statement: | | |
| – Change in tax rates from previous years | 1 368 | 948 |
| – Adjustments of deferred taxes from previous years | (184) | 20 |
| – Changes in temporary differences | (912) | (1 908) |
| Recognized in balance sheet: | | |
| – Changes in deferred taxes on valuation of financial instruments (see Note 36.1) | 676 | 1 184 |
| Total deferred tax assets/(liabilities), net, as of December 31 | (25 992) | (25 527) |

The calculation of deferred taxes is based on future (if known) national tax rates.
The effectively owed deferred tax is calculated on the main temporary differences.

15.5 Tax-relevant loss carry-forwards

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|---|----------------|----------------|
| Expiring in the next 5 years | 9 533 | 35 056 |
| Expiring in 5 to 9 years | 63 704 | 54 106 |
| Available without limitation | 227 634 | 262 568 |
| Total tax loss carry-forwards | 300 871 | 351 730 |
| Calculated potential tax assets thereof | 101 818 | 100 250 |
| Valuation allowances | (96 192) | (94 454) |
| Net tax asset from loss carry-forwards | 5 626 | 5 796 |

The table above shows the tax-relevant loss carry-forwards, which largely represent market entry costs and are capitalized if sufficient taxable profit is likely to be generated in the foreseeable future. Owing to the lower tax rates applying from 2008 due to the of tax reforms in Germany, the calculated potential tax credits from previous years have had to be reduced by CHF 16.3 million. During the 2006 financial year, as a result of tax audits, tax-relevant loss carry-forwards worth about CHF 16 million with a tax effect of about CHF 6 million were disallowed. However, the resulting deferred tax assets had already been written off in previous years.

The new tax loss carry-forwards arising in the 2007 and 2006 financial years were written off as it is not certain that they can be used in the foreseeable future.

The capitalized net tax assets of CHF 5.8 million as of 31.12.2007 (31.12.2006: CHF 5.6 million) are available without limitation.

16 Earnings per share

| | | 2006 | 2007 |
|--|------------|---------------|-------------|
| Net income | CHF 1 000 | (19 680) | 60 974 |
| Weighted average number of basic shares | number | 8 488 332 | 8 479 421 |
| Adjustment for potentially dilutive share options | number | 120 816 | 104 938 |
| Weighted average number of shares for diluted earnings per share | number | 8 609 148 | 8 584 359 |
| Basic earnings per share | CHF | (2.32) | 7.19 |
| Diluted earnings per share | CHF | (2.32) | 7.10 |

Owing to the net loss reported for the 2006 financial year, the figure for diluted earnings per share is the same as the undiluted figure.

17 Cash and cash equivalents

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|--|---------------|---------------|
| Petty cash, postal account balances and cash at banks | 41 847 | 41 254 |
| Clearing accounts of points of sale | (91) | 822 |
| Total cash and cash equivalents recognized in the balance sheet | 41 756 | 42 076 |
| Short-term bank overdrafts (see Note 24) | (743) | (14 948) |
| Total cash and cash equivalents recognized in the cash flow statement | 41 013 | 27 128 |

The average interest rate on postal account balances and cash at banks, which have maturities of less than three months, was 1.0% (2006: 1.0%).

18 Receivables, advance payments and prepaid expenses

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|---|---------------|---------------|
| Receivables: | | |
| – Tax refunds (value added tax) | 13 716 | 13 283 |
| – Income taxes | 5 925 | 8 470 |
| – Other receivables | 8 664 | 8 061 |
| – Credit card sales | 5 446 | 4 398 |
| – Reclaimable withholding taxes | 25 | 42 |
| – Receivables from cash transporter | 1 860 | 0 |
| Total receivables, gross | 35 636 | 34 254 |
| Impairments | (450) | (210) |
| Total receivables, net | 35 186 | 34 044 |
| Advance payments and prepaid expenses: | | |
| – Advance payments customs | 0 | 3 879 |
| – Advance payments for advertising campaigns | 3 318 | 4 382 |
| – Other advance payments and prepaid expenses | 2 631 | 5 371 |
| – Incidental rental expenses | 1 792 | 39 |
| Total advance payments and prepaid expenses | 7 741 | 13 671 |
| Total receivables, advance payments and prepaid expenses | 42 927 | 47 715 |

18.1 Value adjustments on receivables

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|--|--------------|--------------|
| Balance 1.1. | (322) | (450) |
| Payments | 7 | 46 |
| Receivables written off during the year as uncollectible | 9 | 22 |
| (Creation)/release of impairments | (141) | 175 |
| Effect of exchange rates | (3) | (3) |
| Balance 31.12. | (450) | (210) |

Charles Vögele Group normally does not carry customer receivables since the vast majority of sales to customers are cash sales. Sales transacted by debit and credit card are paid by the local financial institutions and service providers within 2–3 days. Payments are monitored systematically and continuously. Many years of experience show that credits from credit card sales shown at the balance sheet date have a good credit rating, accordingly no value adjustments are necessary.

Receivables from tax refunds (value added tax) are secured by carrying out regular verifications and by submitting the necessary declarations on time. No receivables were overdue on the balance sheet date.

Other receivables are not related to regular sales of goods but to various individual items that are monitored periodically and notice is given where necessary. On the balance sheet date they were impairment tested and written down where necessary.

The book value of receivables and advance payments is equivalent to their fair value.

19 Inventories

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|--|----------------|----------------|
| Current inventory, gross | 288 973 | 301 935 |
| Inventory valuation allowance | (66 704) | (69 098) |
| Current inventory (current and previous seasons), net | 222 269 | 232 837 |
| Upcoming season | 58 024 | 55 327 |
| Heating oil | 334 | 577 |
| Total | 280 627 | 288 741 |

19.1 Value adjustments on inventories

| CHF 1000 | 2006 | 2007 |
|---|-----------------|-----------------|
| Balance, as of January 1 | (71 269) | (66 704) |
| Offset against purchase price | 984 | 3 655 |
| Release of value adjustments affecting cost of goods | 5 285 | 2 281 |
| Creation of value adjustments affecting cost of goods | 0 | (7 056) |
| Release of value adjustments affecting operating financial income (discounts) | (139) | 171 |
| Effect of exchange rates | (1 565) | (1 445) |
| Balance, as of December 31 | (66 704) | (69 098) |

The additional non-systematic value adjustments of CHF 3.0 million made in the financial year 2004 and CHF 5.4 million made in 2005 were partly used over the course of 2007 for special offers and reduced by CHF 2.3 million (previous year CHF 3.5 million). The cost of goods was thus reduced by this amount in 2007. The formation of CHF 7.1 million of value adjustments during the 2007 financial year resulted mainly from the systematic inventory valuation system. In the previous year, around CHF 1.8 million released.

20 Tangible assets

20.1 Changes in values

| CHF 1000 | Land | Buildings | Equipment | Total |
|-------------------------------------|---------------|----------------|----------------|----------------|
| Balance 1.1.2006 | | | | |
| Acquisition cost | 60 190 | 214 318 | 478 903 | 753 411 |
| Accumulated depreciation/impairment | (9 399) | (78 497) | (262 740) | (350 636) |
| Net book amount 1.1.2006 | 50 791 | 135 821 | 216 163 | 402 775 |
| Year 2006 | | | | |
| Opening net book amount | 50 791 | 135 821 | 216 163 | 402 775 |
| Effect of exchange rates | 211 | 1 379 | 5 379 | 6 969 |
| Additions | 0 | 302 | 70 800 | 71 102 |
| Disposals | 0 | 0 | (1 538) | (1 538) |
| Depreciation | 0 | (5 555) | (46 246) | (51 801) |
| Impairment | 0 | 0 | (1 882) | (1 882) |
| Reclassification | 0 | 56 | (1 056) | (1 000) |
| Closing net book amount | 51 002 | 132 003 | 241 620 | 424 625 |
| Balance 31.12.2006 | | | | |
| Acquisition cost | 60 401 | 217 608 | 514 116 | 792 125 |
| Accumulated depreciation/impairment | (9 399) | (85 605) | (272 496) | (367 500) |
| Net book amount 31.12.2006 | 51 002 | 132 003 | 241 620 | 424 625 |
| Year 2007 | | | | |
| Opening net book amount | 51 002 | 132 003 | 241 620 | 424 625 |
| Effect of exchange rates | 198 | 1 237 | 5 164 | 6 599 |
| Additions | 0 | 138 | 71 585 | 71 723 |
| Disposals | 0 | (15) | (2 591) | (2 606) |
| Depreciation | 10 | (5 576) | (50 902) | (56 468) |
| Impairment | 0 | 0 | (471) | (471) |
| Reclassification | 36 | (36) | 0 | 0 |
| Closing net book amount | 51 246 | 127 751 | 264 405 | 443 402 |
| Balance 31.12.2007 | | | | |
| Acquisition cost | 60 645 | 219 544 | 563 688 | 843 877 |
| Accumulated depreciation/impairment | (9 399) | (91 793) | (299 283) | (400 475) |
| Net book amount 31.12.2007 | 51 246 | 127 751 | 264 405 | 443 402 |

See Note 11 for information about impairment costs.

As of December 31, 2007, CHF 104.9 million of the land and buildings are pledged as security for mortgages (December 31, 2006: CHF 104.9 million).

20.2 Finance leases

The carrying amount of tangible assets includes the following leased assets:

| CHF 1000 | Land | Buildings | Equipment | Total |
|---------------------------|--------------|---------------|--------------|---------------|
| Acquisition cost | 6 341 | 58 348 | 18 207 | 82 896 |
| Accumulated depreciation | 0 | (17 165) | (9 190) | (26 355) |
| Balance 31.12.2006 | 6 341 | 41 183 | 9 017 | 56 541 |
| Additions 2006 | 0 | 0 | 0 | 0 |
| Acquisition cost | 6 582 | 60 058 | 6 897 | 73 537 |
| Accumulated depreciation | 0 | (19 415) | (3 855) | (23 270) |
| Balance 31.12.2007 | 6 582 | 40 643 | 3 042 | 50 267 |
| Additions 2007 | 0 | 0 | 789 | 789 |
| Reclassification | 36 | (36) | (12 497) | (12 497) |

Financial leases for land and buildings includes Charles Vögele Group's distribution centres in Lehrte and Sigmaringen in Germany, as well as in Kalsdorf in Austria. Furnishings and fittings relating to the warehouses and offices of these locations are included in leased assets and classified as "Equipment". The additions in 2007 relate to IT-investment. The reclassification of CHF 12.5 million reflects the transfer of ownership of storage equipment and IT systems owing to the expiry of leasing contracts. In 2006 there were no additions or disposals.

21 Financial assets

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|-------------------------------|------------|------------|
| Investments | 170 | 170 |
| Loans | 526 | 542 |
| Total Financial assets | 696 | 712 |

The position "Investments" comprises interests in non-consolidated companies (mainly parking garages) with shareholdings below 20%.

The "Loans" relate to the financing of a piece of land under a financial lease contract (see Note 20.2).

22 Intangible assets

22.1 Changes intangible assets

| CHF 1000 | Goodwill | Other intangible assets | Total |
|-----------------------------------|----------------|-------------------------------|----------------|
| Balance 1.1.2006 | | | |
| Acquisition cost | 146 449 | 19 205 | 165 654 |
| Accumulated depreciation | 0 | (13 801) | (13 801) |
| Net book amount 1.1.2006 | 146 449 | 5 404 | 151 853 |
| Year 2006 | | | |
| Opening net book amount | 146 449 | 5 404 | 151 853 |
| Effect of exchange rates | 899 | 0 | 899 |
| Additions | 0 | 1 547 | 1 547 |
| Disposals | 0 | 0 | 0 |
| Depreciations | 0 | (2 049) | (2 049) |
| Impairments | (74 429) | 0 | (74 429) |
| Closing net book amount | 72 919 | 4 902 | 77 821 |
| Balance 31.12.2006 | | | |
| Acquisition cost | 72 919 | 20 735 | 93 654 |
| Accumulated depreciation | 0 | (15 833) | (15 833) |
| Net book amount 31.12.2006 | 72 919 | 4 902 | 77 821 |
| Year 2007 | | | |
| Opening net book amount | 72 919 | 4 902 | 77 821 |
| Effect of exchange rates | 0 | 0 | 0 |
| Additions | 0 | 3 373 | 3 373 |
| Disposals | 0 | 0 | 0 |
| Depreciations | 0 | (2 026) | (2 026) |
| Impairments | 0 | 0 | 0 |
| Closing net book amount | 72 919 | 6 249 | 79 168 |
| Balance 31.12.2007 | | | |
| Acquisition cost | 72 919 | 24 117 | 97 036 |
| Accumulated depreciation | 0 | (17 868) | (17 868) |
| Net book amount 31.12.2007 | 72 919 | 6 249 | 79 168 |

22.2 Impairment test on goodwill

The goodwill of CHF 72.9 million shown at 31.12.2007 was generated by a leveraged buyout through which Charles Vögele Holding AG firstly acquired the shares of the Charles Vögele Group from the company's founder and sole shareholder in 1997, and secondly acquired the minority shares in Charles Vögele (Austria) AG in 1998. At the time of acquisition the Group consisted of the Central Service Companies and the Swiss, German and Austrian Sales Organizations. The level of the purchase price and of the goodwill reflected the market position and the resulting recoverable cash flows from the combination of the various Group companies. Recoverable income is defined by calculating the value in use of the cash-generating units. The cash-generating units are identified as the segments Switzerland, Germany and Austria, with the Central Services allocated to these three segments proportionally. Value in use was calculated using the discounted free cash flow model. The cash flow projections are based on the latest budget and three-year plan approved by Group Management and the Board of Directors, which reflect the Management's estimates of operating results. The Management believes that consumer sentiment will only improve very slightly in all three countries, and that most clothing retail markets will stagnate. However, various measures have already been initiated to increase sales in existing stores and to improve earnings power. In Germany especially, Charles Vögele is pressing ahead with the closing of loss-making branches and the opening of new stores in economically stronger regions.

Cash flows beyond this planned period (residual value) are extrapolated using cautious growth rates of 1% for Switzerland and 1.5% for Germany and Austria. The weighted average cost of capital (WACC) before tax used to discount the free cash flows are 8.5% (previous year 8.4%) for Switzerland, 8.8% (previous year 8.2%) for Germany and 8.9% (previous year 8.0%) for Austria and take account of Swiss financial market data, long-term Swiss, German and Austrian government bonds and the Group's actual financing structure. Also the sensitivity analysis related to sales and profit development showed that the disclosed goodwill is not impaired.

The previous year's write-down of CHF 74.4 million relates to the goodwill from acquisition of the business activities (in the form of net assets) of the Dutch Kien Group by Charles Vögele (Netherlands) B.V. The recoverable amount was determined by value-in-use calculations.

This calculation was carried out using the discounted free cash flow model. The projected free cash flow of the cash-generating unit Charles Vögele (Netherlands) B.V. was based on the latest multi-year plan. Cash flows beyond this budgeted period (residual value) are extrapolated using a cautious growth rate of 1.5%. The weighted average cost of capital (WACC) pre-tax rate used to discount the free cash flow was 9.2%. This rate took account of Swiss financial market data, long-term Dutch government bonds and Charles Vögele (Netherlands) B.V.'s target financing structure.

In the year 2002, the Charles Vögele Group set itself the target of breaking even at EBITDA level in the Dutch Sales Organization by 2006. Although there had been a continuous and significant reduction in operating losses over four years, the sales organization did not quite manage to reach this target by the end of 2006. Consequently, plans were revised and adjusted to take account of the current performance. In particular, the expected yearly increase of sales until 2011 was reduced to 3.7%. Although this value was above the expected market growth, the resulting impairment test showed that the goodwill was no longer holding its value, which led to an impairment of CHF 74.4 million (see Note 11).

22.3 Other intangible assets

"Other intangible assets" covers brand rights, licences and software. Brand rights and licences have already been fully written down in previous years. The recorded net book value reflects IT software exclusively.

23 Financial instruments by category (assets)

| CHF 1000 | Loans and receivables | Assets at fair value through profit and loss | Derivatives used for hedging | Available for sale/ others | Total |
|--|-----------------------|--|------------------------------|----------------------------|---------------|
| Cash and cash equivalents | 41 756 | | | | 41 756 |
| Receivables, advance payments and prepaid expenses | 42 927 | | | | 42 927 |
| Derivative financial instruments | | | 1 408 | | 1 408 |
| Financial assets (see Note 21) | 526 | | | 170 | 696 |
| Balance 31.12.2006 | 85 209 | 0 | 1 408 | 170 | 86 787 |

| CHF 1000 | Loans and receivables | Assets at fair value through profit and loss | Derivatives used for hedging | Available for sale/ others | Total |
|--|-----------------------|--|------------------------------|----------------------------|---------------|
| Cash and cash equivalents | 42 076 | | | | 42 076 |
| Receivables, advance payments and prepaid expenses | 47 715 | | | | 47 715 |
| Derivative financial instruments | | | 79 | | 79 |
| Financial assets (see Note 21) | 542 | | | 170 | 712 |
| Balance 31.12.2007 | 90 333 | 0 | 79 | 170 | 90 582 |

The maximum risk of default is equal to the assets shown in the balance sheet.

24 Short-term financial liabilities

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|--|--------------|---------------|
| Short-term bank overdrafts | 743 | 14 948 |
| Short-term lease liabilities (see Note 26) | 6 444 | 4 137 |
| | 7 187 | 19 085 |

The short-term bank liabilities are bank current accounts that showed a negative balance on the balance sheet date.

25 Other liabilities and accruals

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|----------------------|---------------|---------------|
| Sales tax | 20 599 | 15 093 |
| Vouchers | 8 731 | 10 852 |
| Accruals: | | |
| – Personnel expenses | 19 647 | 21 388 |
| – Rental expenses | 5 648 | 4 914 |
| – Other accruals | 12 344 | 13 494 |
| Total | 66 969 | 65 741 |

26 Finance lease liabilities

| CHF 1000 | Residual term < 1 year | Residual term 1–5 years | Residual term > 5 years | Total |
|---------------------------|------------------------|-------------------------|-------------------------|---------------|
| Lease commitments, gross | 9 107 | 31 439 | 28 054 | 68 600 |
| Discounted | (2 663) | (8 181) | (4 837) | (15 681) |
| Balance 31.12.2006 | 6 444 | 23 258 | 23 217 | 52 919 |
| Lease commitments, gross | 6 668 | 30 588 | 25 112 | 62 368 |
| Discounted | (2 531) | (7 487) | (3 880) | (13 898) |
| Balance 31.12.2007 | 4 137 | 23 101 | 21 232 | 48 470 |

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|---|---------------|---------------|
| Disclosure: | | |
| – Short-term financial liabilities (due <1 year; see Note 24) | 6 444 | 4 137 |
| – Lease liabilities | 46 475 | 44 333 |
| Total | 52 919 | 48 470 |

The average discount rate of finance lease commitments amounted to 5.4% (2006: 5.2%).

27 Provisions

| CHF 1000 | Personnel provisions | Other provisions | Total |
|---------------------------|----------------------|------------------|--------------|
| Balance 1.1.2006 | 7 474 | 410 | 7 884 |
| Increase | 350 | 215 | 565 |
| Usage | (310) | (63) | (373) |
| Decrease | (137) | (273) | (410) |
| Reclassification | 0 | 0 | 0 |
| Effect of exchange rates | 252 | 9 | 261 |
| Balance 31.12.2006 | 7 629 | 298 | 7 927 |
| Increase | 148 | 284 | 432 |
| Usage | (463) | (125) | (588) |
| Decrease | 0 | (201) | (201) |
| Reclassification | 0 | 0 | 0 |
| Effect of exchange rates | 229 | 9 | 238 |
| Balance 31.12.2007 | 7 543 | 265 | 7 808 |

“Personnel provisions” are mainly associated with pension liabilities and settlements paid to employees of various Group companies. The increases and decreases are attributable to alterations to pension and settlement liabilities recognized in the income statement. Usage reflects the annual pension payments that are offset by the provisions. The decreases in the year under review and previous year were mainly attributable to provisions that were no longer required.

“Other provisions” mainly includes estimated outflows of funds connected with legal matters.

The precise timing of the estimated outflows of funds from “Other provisions” is difficult to ascertain and largely out of the company’s control. The Management assumes that the outflow will occur within the next one to three years.

28 Mortgages

| CHF 1000 | |
|---------------------------|---------------|
| Balance 1.1.2006 | 93 400 |
| Repayment of mortgages | (160) |
| Balance 31.12.2006 | 93 240 |
| Increase in mortgages | 1 840 |
| Repayment of mortgages | (80) |
| Balance 31.12.2007 | 95 000 |

The mortgages reflect long-term fixed-interest bank loans with residual terms between one and four years. The average interest rate on mortgages amounted to 3.5% in year 2007 (2006: 3.2%).

29 Loans

29.1 Composition

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|-----------------------------|---------------|---------------|
| Long-term loans, gross | 62 500 | 40 000 |
| Credit procurement costs | (904) | (697) |
| Long-term loans, net | 61 596 | 39 303 |

The credit procurement costs incurred in connection with the loan agreements (see below) are amortized in accordance with the residual term to maturity and credit utilization, over the remaining lifetime of the loan contract.

The carrying amount of the loans outstanding as at December 31, 2007, is approximately in line with market value as the interest rates are adjusted annually. The annual adjustment of the margin reflects the market's risk assessment of the company.

At the end of June 2007, Charles Vögele Group signed a new syndicated credit agreement of CHF 250 million, thus replacing the existing credit facility arranged in July 2004 ahead of schedule. The new loan is for a term of five years. The interest rate is based on LIBOR plus a margin of between 30 and 115 basis points (previously between 65 and 200 basis points), depending on a key financial ratio of the Group (net debt/EBITDA; see also the overview of cash reserves in Note 3.4). The target ratio was met on the balance sheet date. The average interest rate in the year under review was 3.4% (2006: 2.8%).

30 Financial instruments by category (liabilities)

| CHF 1000 | Liabilities at fair value through profit and loss | Derivatives used for hedging | Other financial liabilities | Total |
|--|---|------------------------------|-----------------------------|----------------|
| Short-term financial liabilities (see Note 24) | | | 743 | 743 |
| Trade payables | | | 60 317 | 60 317 |
| Other liabilities and accruals | | | 66 969 | 66 969 |
| Derivative financial instruments | 2 431 | 182 | | 2 613 |
| Mortgages | | | 93 240 | 93 240 |
| Loans | | | 61 596 | 61 596 |
| Balance 31.12.2006 | 2 431 | 182 | 282 865 | 285 478 |

| CHF 1000 | Liabilities at fair value through profit and loss | Derivatives used for hedging | Other financial liabilities | Total |
|--|---|------------------------------|-----------------------------|----------------|
| Short-term financial liabilities (see Note 24) | | | 14 948 | 14 948 |
| Trade payables | | | 61 714 | 61 714 |
| Other liabilities and accruals | | | 65 741 | 65 741 |
| Derivative financial instruments | 2 412 | 8 004 | | 10 416 |
| Mortgages | | | 95 000 | 95 000 |
| Loans | | | 39 303 | 39 303 |
| Balance 31.12.2007 | 2 412 | 8 004 | 276 706 | 287 122 |

31 Share capital

The reduction in the share capital is due to the Annual Shareholders Meeting's decision on April 4, 2007, to reduce the par value of Charles Vögele Holding AG shares by CHF 2.00 per share, from CHF 8.00 to CHF 6.00. The remaining share capital comprises 8 800 000 fully paid-in bearer shares with a par value of CHF 6.00 each.

The articles of association of Charles Vögele Holding AG include a provision authorizing the Board of Directors to make a conditional increase in the share capital of up to CHF 1.6 million, divided into 264 000 fully paid-in bearer shares with a par value of CHF 6.00 each, without giving rise to any pre-emptive rights for existing shareholders. These shares may only be used for the management share option plan (see Note 34 on the management share option plan).

32 Treasury shares

As of December 31, 2007, treasury shares comprise 370 546 shares (December 31, 2006: 325 200) held by the Charles Vögele Group and earmarked for share participations by the Management of the Charles Vögele Group (see Note 34).

33 Distribution to shareholders

For the 2006 financial year, on July 4, 2007, a par value reduction of CHF 2.00 (for the 2005 financial year on July 4, 2006, a par value reduction of CHF 2.00) was paid for each Charles Vögele Group AG bearer share.

For the financial year 2007, the Board of Directors proposes to the Annual Shareholders' Meeting of April 16, 2008, that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 2.00 per share. These financial statements do not reflect this par value reduction.

34 Incentive and share ownership plans

In order to link the interests of the members of its Board of Directors, Group Management and employees with those of its shareholders, the Group offered a number of opportunities for certain employees to purchase shares.

34.1 Management share option plan 2002

The 2002 option plan for members of the Board of Directors, Group Management, and the second management level replaced all former management share option plans. The option plan (equity-based remuneration settled through equity capital instruments) is financed through treasury shares. The award of options is proposed by the Personnel and Compensation Committee and approved by the Board of Directors. Allocation criteria are based on the rank and function of the individual beneficiaries. Each option entitles the holder to acquire one share. Initially the number of shares that could be issued under this plan was limited to 3% of the company's ordinary share capital, but this was increased in 2005 by the Board of Directors of Charles Vögele Holding AG to 5% of the available shares. The duration of the option plan is not limited. The duration of the options of each tranche expires after five years, with a vesting period of three years from the date they are awarded. On

leaving the Board of Directors, board members receive their allocated options in full. On leaving the company, members of Group Management and the upper tier of management receive their allocated options pro rate temporis on the basis of the three-year vesting period. However, the three-year vesting period continues to apply in all cases.

The annual tranches issued so far are detailed in the following table:

| Granting date of tranche | Number of granted options | Number of expired options | Number of exercised options | Number of outstanding options as of 31.12.2007 | Exercise price in CHF | Duration until | Vesting period until |
|--------------------------|---------------------------|---------------------------|-----------------------------|--|-----------------------|----------------|----------------------|
| 18.11.2002 | 119 000 | (7 000) | (112 000) | 0 | 29.50 | 18.11.2007 | 18.11.2005 |
| 29.08.2003 | 98 000 | (2 499) | (61 745) | 33 756 | 54.55 | 29.08.2008 | 29.08.2006 |
| 24.08.2004 | 70 000 | (3 593) | (9 373) | 57 034 | 41.05 | 24.08.2009 | 24.08.2007 |
| 29.08.2005 | 81 500 | (6 412) | 0 | 75 088 | 95.55 | 29.08.2010 | 29.08.2008 |
| 26.08.2006 | 105 600 | (6 732) | 0 | 98 868 | 90.00 | 26.08.2011 | 26.08.2009 |
| 23.08.2007 | 103 500 | 0 | 0 | 103 500 | 119.00 | 23.08.2012 | 23.08.2010 |
| Total | 577 600 | (26 236) | (183 118) | 368 246 | | | |

Further allocations under this plan are usually determined at the meeting held by the Board of Directors to discuss the half-year financial statements. The exercise price is determined by the volume-weighted closing price on the 30 trading days prior to the allocation date and the ten trading days after this date.

The changes in the number of outstanding share options and the relevant weighted average exercise prices are shown in the following table:

| | 2006 Weighted average exercise price in CHF | 2006 Number of options | 2007 Weighted average exercise price in CHF | 2007 Number of options |
|---------------------------------|--|---------------------------|--|---------------------------|
| Balance 1.1. | 56.83 | 313 972 | 71.77 | 325 200 |
| Granted options | 90.00 | 105 600 | 119.00 | 103 500 |
| Expired options | 75.81 | (6 462) | 80.27 | (11 246) |
| Exercised options | 40.02 | (87 910) | 44.34 | (49 208) |
| Balance 31.12. | 71.77 | 325 200 | 88.45 | 368 246 |
| Exercisable as at 31.12. | 48.91 | 75 627 | 46.07 | 90 790 |

During the period between 1.1.2007 and 18.11.2007, 15 000 share options from the tranche of 18.11.2002 were exercised. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during this exercise period was CHF 117.47. During the 2006 financial year 51 000 share options from this tranche were exercised. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during this exercise period was CHF 102.75.

During the 2007 financial year, 24 835 share options from the tranche of 29.08.2003 were exercised. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during the period under review was CHF 116.01. In the previous year 36 910 options from this tranche were exercised during the period between 29.8.2006 and 31.12.2006. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during this exercise period was CHF 96.98.

It has been possible to exercise share options from the tranche of 24.8.2004 since 24.8.2007. During the period between 24.8.2007 and 31.12.2007, 9 373 options from this tranche were exercised. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during this exercise period was CHF 100.66.

The above-mentioned tranches are serviced exclusively by treasury shares purchased by the Charles Vögele Group for this purpose (see Note 32).

The weighted average remaining contractual term of the 368 246 options outstanding on 31.12.2007 was 38 months (previous year 325 200 options and 40 months). Exercise prices ranged between CHF 41.05 and CHF 119.00 per option (previous year between CHF 29.50 and CHF 95.55 per option).

The fair value of the options as determined by the Enhanced American Model was calculated using the following key parameters:

| Tranche | Share price at granting day in CHF | Expected volatility | Risk-free interest rate | Expected dividend yield | Fair value per option in CHF |
|------------|------------------------------------|---------------------|-------------------------|-------------------------|------------------------------|
| 18.11.2002 | 30.90 | 34.27% | 1.95% | 1.50% | 8.19 |
| 29.08.2003 | 52.35 | 34.27% | 1.95% | 1.80% | 11.13 |
| 24.08.2004 | 36.50 | 34.27% | 1.94% | 1.46% | 6.86 |
| 29.08.2005 | 93.00 | 34.01% | 1.57% | 1.51% | 20.40 |
| 26.08.2006 | 90.00 | 35.96% | 2.49% | 1.73% | 23.39 |
| 23.08.2007 | 117.50 | 30.55% | 3.01% | 1.71% | 27.12 |

The expected volatility was determined from the mean value of the average implied volatility and historical volatility over six months.

The weighted average of the fair values of options issued during the year under review is CHF 27.12 (previous year CHF 23.39).

During the year under review CHF 1.7 million (previous year CHF 1.2 million) was charged through personnel expenses for the proportional fair value of options.

35 Contingent liabilities

35.1 Outstanding merchandise orders and letters of credit

As of December 31, 2007, future commitments resulting from merchandise orders not yet included in the balance sheet amounted to CHF 143.2 million (December 31, 2006: CHF 135.2 million). As of December 31, 2007, letters of credit not included in the balance sheet amounted to CHF 30.3 million (December 31, 2006: CHF 30.9 million).

36 Forward foreign exchange contracts

The forward foreign exchange contracts open on the balance sheet date are shown in Note 3.4 under liquidity risks.

36.1 Derivatives for cash flow hedges

The forward foreign exchange contracts for cash flow hedges of CHF 166.5 million (previous year CHF 192.3 million) open on December 31, 2007, are used for the purchase of merchandise in USD and cover exchange rate risks for purchasing merchandise for the following year's collection.

These derivative financial instruments are valued at their replacement value. Any changes in the fair value arising from the valuation on the balance sheet date are recognized under equity as "Valuation financial instruments" until the hedged underlying transaction has been completed.

The valuation difference from ineffective hedge transactions is debited or credited directly to "Exchange gains/(losses)" in the income statement. There were no material ineffective hedge transactions during the year under review.

Movement in valuation differences not affecting income statement

| CHF 1000 | Equity |
|--|----------------|
| Balance 1.1.2006 | |
| Valuation financial instruments before tax | 4 316 |
| Deferred tax | (647) |
| Valuation financial instruments net of tax 1.1.2006 | 3 669 |
| Year 2006 | |
| Opening balance | 3 669 |
| Disposal through purchase of goods recognized in cost of goods in income statement | (4 316) |
| Valuation of outstanding financial instruments as of 31.12.2006 | (133) |
| Change in deferred tax | 667 |
| Valuation net of tax 31.12.2006 | (113) |
| Closing balance 31.12.2006 | |
| Valuation financial instruments before tax | (133) |
| Deferred tax | 20 |
| Valuation financial instruments net of tax 31.12.2006 | (113) |
| Year 2007 | |
| Opening balance | (113) |
| Disposal through purchase of goods recognized in cost of goods in income statement | 133 |
| Valuation of outstanding financial instruments as of 31.12.2007 | (8 028) |
| Change in deferred tax | 1 184 |
| Valuation financial instruments net of tax 31.12.2007 | (6 824) |
| Closing balance 31.12.2007 | |
| Valuation financial instruments before tax | (8 028) |
| Deferred tax | 1 204 |
| Valuation financial instruments net of tax 31.12.2007 | (6 824) |

36.2 Derivatives for trading purposes

The valuation of currency swaps and forward foreign exchange contracts at fair value resulted in a loss of CHF 2.4 million as of December 31, 2007 (December 31, 2006: loss of CHF 2.4 million), which was included in the income statement under "Exchange gains or losses".

37 Rental commitments

For rental contracts (operating leasing) with fixed rental terms the following minimum payments are to be expected (excluding renewal options):

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|----------------------|----------------|----------------|
| Maturity < 1 year | 164 727 | 177 702 |
| Maturity 1 – 5 years | 490 541 | 504 986 |
| Maturity > 5 years | 250 046 | 244 661 |
| Total | 905 314 | 927 349 |

38 Related party transactions

The remuneration of the Board of Directors and Group Management amounted to:

| | Board of Directors | Group Management | Total |
|--|--------------------|---------------------|--------|
| 2006 Number of members | 6 | 3 | |
| Salaries, professional fees, bonuses and other remunerations CHF 1 000 | 818 | 3 075 | 3 893 |
| Number of Management-options | 25 800 | 30 500 | 56 300 |
| Value of Management-options CHF 1 000 ¹⁾ | 603 | 713 | 1 316 |
| 2007 Number of members | 6 | 3 | |
| Salaries, professional fees, bonuses and other remunerations CHF 1 000 | 1 283 | 3 929 ²⁾ | 5 212 |
| Number of Management-options | 25 800 | 30 500 | 56 300 |
| Value of Management-options CHF 1 000 ¹⁾ | 702 | 827 | 1 529 |

¹⁾ Valuation: Fair value according IFRS, details see page 42

²⁾ Extraordinary expense of CHF 320 000 due to the timely overlap between the employment and resignation of two members of Group management.

Dr. Felix R. Ehrat, Vice-Chairman of the Board of Directors of Charles Vögele Holding AG, is also Chairman of the Board of Directors of the law firm of Bär & Karrer AG. During the year under review, Charles Vögele Group received legal advisory services worth a total of CHF 0.2 million (previous year: CHF 0.1 million) from Bär & Karrer AG.

There were no further significant transactions with related parties in the years 2007 and 2006.

Details of total payments to members of the Board of Directors pursuant to the Swiss Code of Obligations (CO) for the 2007 financial year:

| CHF 1000 | Bernd H.J. Bothe Chairman | Alfred Niederer Vice-Chairman ¹⁾ | Dr. Felix R. Ehrat Vice-Chairman ¹⁾ | Alain Caparros Member | Peter Littmann Member | Daniel Sauter Member | Carlo Vögele Member | Total Board of Directors |
|----------------------------------|------------------------------|--|---|--------------------------|--------------------------|-------------------------|------------------------|--------------------------|
| Salaries (gross) | 303 | 46 | 161 | 70 | 93 | 93 | 93 | 859 |
| Bonus (gross) | 61 | – | 61 | 46 | 61 | 61 | 61 | 351 |
| Employer's social security costs | – | – | 19 | – | – | 15 | 27 | 61 |
| Lump-sum expenses | 2 | – | 2 | 2 | 2 | 2 | 2 | 12 |
| Management-options ²⁾ | 117 | – | 117 | 117 | 117 | 117 | 117 | 702 |
| Total 2007 | 483 | 46 | 360 | 235 | 273 | 288 | 300 | 1 985 |
| Fees for legal services | – | – | 243 ³⁾ | – | – | – | – | 243 |
| Total 2007 | 483 | 46 | 603 | 235 | 273 | 288 | 300 | 2 228 |

¹⁾ Mr. Niederer was Vice-Chairman until April 4, 2007. After his resignation, Dr. Ehrat took over the position.

²⁾ Valuation: fair value according IFRS, details see page 42

³⁾ Fees from Bär & Karrer AG

Details of total payments to Group Management pursuant to the Swiss Code of Obligations (CO) for the 2007 financial year:

| CHF 1000 | Daniel Reinhard CEO | Total Group Management ¹⁾ |
|--|---------------------|--------------------------------------|
| Salaries (gross) | 750 | 2 033 |
| Bonus (gross) | 854 | 1 423 |
| Employer's social security and insurance costs | 166 | 433 |
| Lump-sum expenses | – | 12 |
| Company car ²⁾ | 10 | 28 |
| Management-options ³⁾ | 350 | 827 |
| Total 2007 | 2 130 | 4 756 |

¹⁾ Extraordinary expense of CHF 320 000 due to the timely overlap between the employment and resignation of two members of Group management.

²⁾ Private used (tax value: 9.6% of acquisition value)

³⁾ Valuation: fair value according IFRS, details see page 42

Disclosure of Board of Directors' shareholdings pursuant to the Swiss Code of Obligations (CO) as at 31.12.2007:

| | Bernd H.J. Bothe Chairman | Dr. Felix R. Ehrat Vice-Chairman | Alain Caparros Member | Peter Littmann Member | Daniel Sauter Member | Carlo Vögele Member | Total Board of Directors |
|--|------------------------------|-------------------------------------|--------------------------|--------------------------|-------------------------|------------------------|--------------------------|
| Number of shares | 7 500 | 6 000 | – | – | 2 000 | 192 877 | 208 377 |
| In percentage of share capital | 0.09% | 0.07% | – | – | 0.02% | 2.19% | 2.37% |
| Value of shares CHF 1 000 | 696 | 557 | – | – | 186 | 17 909 | 19 348 |
| Number of Mgt.-options | 12 000 | 19 500 | 4 300 | 8 600 | 19 500 | 15 000 | 78 900 |
| In percentage of share capital | 0.14% | 0.22% | 0.05% | 0.10% | 0.22% | 0.17% | 0.90% |
| Value of Mgt.-opt. CHF 1 000 ¹⁾ | 163 | 496 | 38 | 111 | 496 | 321 | 1 625 |

¹⁾ Valuation: according to Swiss tax rules

Disclosure of Group Management's shareholdings pursuant to the Swiss Code of Obligations (CO) as at 31.12.2007:

| | Daniel Reinhard CEO | Dr. Felix Thöni CFO | Werner Lange CPO | Total Group Management |
|---|------------------------|------------------------|---------------------|------------------------|
| Number of shares | 50 000 | 8 100 | – | 58 100 |
| In percentage of share capital | 0.57% | 0.09% | – | 0.66% |
| Value of shares CHF 1 000 | 4 643 | 752 | – | 5 395 |
| Number of Management-options | 58 600 | 39 600 | 8 800 | 107 000 |
| In percentage of share capital | 0.67% | 0.45% | 0.10% | 1.22% |
| Value of Management-options CHF 1 000 ¹⁾ | 1 490 | 1 001 | 78 | 2 569 |
| Number of options | – | 600 000 ²⁾ | – | 600 000 |
| In percentage of share capital | – | 0.07% | – | 0.07% |
| Value of options CHF 1 000 | – | 6 | – | 6 |

¹⁾ Valuation: according to Swiss tax rules

²⁾ Call-options, subscription right 100:1

39 Post balance sheet events

The present financial statements take into consideration events occurring between the balance sheet date and March 3, 2008. There were no significant post balance sheet events. The 2007 financial statements, which were discussed between the Audit Committee and representatives of Group Management and approved by the Charles Vögele Holding AG Board of Directors on March 3, 2008, are published on March 4, 2008, and presented to the Annual Shareholders' Meeting on April 16, 2008, for approval.

40 Structure of the Charles Vögele Group as of December 31, 2007

| Company | Currency | Share/Partnership capital |
|--|----------|------------------------------|
| Charles Vögele Holding AG Pfäffikon SZ, CH Holding | CHF | 52 800 000 |
| 100% Charles Vögele Trading AG Pfäffikon SZ, CH Central services | CHF | 10 000 000 |
| 100% Charles Vögele Store Management AG Pfäffikon SZ, CH Central services (dormant) | CHF | 250 000 |
| 100% Prodress AG Pfäffikon SZ, CH Central services | CHF | 100 000 |
| 100% Cosmos Mode AG Pfäffikon SZ, CH Central services | CHF | 100 000 |
| 100% Mac Fash GmbH Pfäffikon SZ, CH Central services (dormant) | CHF | 20 000 |
| 100% Charles Vögele Import GmbH Lehrte, DE Central services | EUR | 25 000 |
| 100% Charles Vögele Fashion (HK) Ltd. Hong Kong, HK Central services | HKD | 100 000 |
| 100% Charles Vögele Mode AG Pfäffikon SZ, CH Sales organization | CHF | 20 000 000 |
| 100% Charles Vögele Deutschland GmbH Sigmaringen, DE Sales organization | EUR | 15 340 000 |
| 100% Charles Vögele (Netherlands) B.V. Utrecht, NL Sales organization | EUR | 1 000 200 ¹⁾ |
| 100% Charles Vögele (Belgium) B.V.B.A. Turnhout, BE Sales organization | EUR | 12 789 299 ²⁾ |
| 100% Charles Vögele (Austria) AG Kalsdorf, AT Sales organization | EUR | 1 453 457 |
| 100% Charles Voegele trgovina s tekstilom d.o.o. Ljubljana, SI Sales organization | EUR | 667 668 ³⁾ |
| 100% Charles Voegele Polska Sp. z o.o. Warsaw, PL Sales organization | PLN | 4 000 000 |
| 100% Charles Vögele Hungária Kereskedelmi Kft. Budapest, HU Sales organization | HUF | 240 000 000 |
| 100% Charles Voegele Ceska s.r.o. Prague, CZ Sales organization | CZK | 30 000 000 |

Changes in the scope of consolidation, see Note 2.4

¹⁾ Increased by EUR 100 following refinancing in 2007

²⁾ Increased by EUR 12 144 776 following refinancing in 2007

³⁾ Converted from SIT 1 60 000 000 to EUR 667 668 following adoption of EUR in 2007

Report of the Group Auditors to the General Meeting of Charles Vögele Holding AG, Pfäffikon SZ

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of changes in equity and notes, pages 2 to 46) of Charles Vögele Holding AG for the year ended December 31, 2007.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Matthias von Moos
Auditor in charge



Pascal Wintermantel

Zurich, March 3, 2008

Charles Vögele Holding AG

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Income Statement Holding

from January 1 to December 31

| CHF 1000 | Note | 2006 | 2007 |
|-------------------------------------|------|-----------------|-----------------|
| Income | | | |
| Dividends | | 14 221 | 14 921 |
| Financial income | 2 | 6 100 | 8 232 |
| Exchange gains, net | | 324 | 0 |
| Total income | | 20 645 | 23 153 |
| Expenses | | | |
| Administration expenses | | (2 426) | (2 446) |
| Financial expenses | 2 | (5 230) | (11 965) |
| Impairment of loans to subsidiaries | 3 | (9 253) | (5 017) |
| Exchange loss, net | | 0 | (1 113) |
| Total expenses | | (16 909) | (20 541) |
| Profit before taxes | | 3 736 | 2 612 |
| Taxes | | 493 | (15) |
| Net profit for the year | | 4 229 | 2 597 |

Balance Sheet Holding

as of December 31

Contents

Income Statement and Balance Sheet

Notes

Retained Earnings

Statutory Auditors

| CHF 1000 | Note | 31.12.2006 | 31.12.2007 |
|--|------|----------------|----------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 4 | 13 | 1 |
| Receivables from subsidiaries | 5 | 173 837 | 176 242 |
| Other receivables and prepaid expenses | | 623 | 1 308 |
| Total current assets | | 174 473 | 177 551 |
| Long-term assets | | | |
| Loans to subsidiaries | 5 | 249 592 | 207 398 |
| Investments | 6 | 445 587 | 564 756 |
| Total long-term assets | | 695 179 | 772 154 |
| Total assets | | 869 652 | 949 705 |
| Liabilities and shareholders' equity | | | |
| Short-term liabilities | | | |
| Short-term bank liabilities | 4 | 743 | 14 948 |
| Accounts payable: | | | |
| – Third parties | | 12 | 151 |
| – Subsidiaries | 5 | 468 106 | 548 973 |
| Accrued liabilities | | 662 | 496 |
| Current tax liabilities | | 2 | 13 |
| Total short-term liabilities | | 469 525 | 564 581 |
| Shareholders' equity | | | |
| Share capital | 7 | 70 400 | 52 800 |
| Legal reserves | | 173 789 | 173 789 |
| Free reserves | | 110 000 | 110 000 |
| Reserve for treasury shares | 8 | 24 394 | 31 106 |
| Retained earnings: | | | |
| – Retained earnings as of January 1 | | 21 676 | 21 544 |
| – Decrease/(Increase) of reserve for treasury shares | | (4 361) | (6 712) |
| – Net profit of the year | | 4 229 | 2 597 |
| Total retained earnings | | 21 544 | 17 429 |
| Total shareholders' equity | | 400 127 | 385 124 |
| Total liabilities and shareholders' equity | | 869 652 | 949 705 |

Notes to the Financial Statements

1 Basis for the financial statements

Charles Vögele Holding AG is based in Pfäffikon, municipality of Freienbach, in the Canton of Schwyz, Switzerland, and its purpose is the holding and administration of investments of the Charles Vögele Group.

The financial statements are presented in accordance with Swiss law.

The integration of the financial statements of Charles Vögele Holding AG into the consolidated financial statements of the Charles Vögele Group has been made in accordance with the accounting principles explained in the notes to the consolidated financial statements.

2 Financial income and expenses

The financial income arises largely from the interest income from cash pooling and from interest on loans granted to subsidiary companies. These are counterbalanced by financial expenses in the form of interest on cash pooling and on interest on accounts payable to subsidiary companies and third parties.

3 Impairment of loans to subsidiaries

Impairments of loans to Group companies concern value adjustments on Group loans to subsidiaries in Germany and the Netherlands.

4 Cash and cash equivalents

This position includes sight deposits at banks. As at December 31, 2007, some bank current accounts showed negative balances, which are shown under the position "Short-term bank liabilities".

5 Receivables from and liabilities to subsidiaries

Current asset receivables and short-term payables due from and to Group companies are resulting mainly from the Group's cash pooling system.

Loans to Group companies serve to finance various subsidiaries and are value adjusted if necessary (see Note 3). The decline of loans is due mainly to the refinancing of the Dutch and Belgian subsidiaries (see Note 6).

6 Investments

The increase in investments is due to the refinancing of the three subsidiaries in the Netherlands, Belgium and Hungary. Loans and cash pool liabilities worth CHF 119.2 million were converted into equity capital (see Note 5).

The complete structure of the Charles Vögele Group long-term investments is documented in Note 40 of the notes to the consolidated financial statements.

7 Share capital

The reduction in the share capital is due to the Annual Shareholders' Meeting's decision on April 4, 2007, to reduce the par value of Charles Vögele Holding AG shares by CHF 2.00 per share, from CHF 8.00 to CHF 6.00. The remaining share capital comprises 8 800 000 fully paid-in bearer shares with a par value of CHF 6.00 per share.

The company's articles of association include a provision authorizing the Board of Directors to carry out a conditional increase of the share capital of up to CHF 1.6 million, divided into 264 000 fully paid-in bearer shares with a par value of CHF 6.00 each, without giving rise to any pre-emptive rights for existing shareholders. The shares may only be used for the management share option plan (see Note 34 on the management share option plan in the notes to the consolidated financial statements).

8 Movement in treasury shares

| | | Price in CHF | Number of shares |
|--|-------------------------|--------------|------------------|
| Treasury shares 31.12.2005 | | | 314 592 |
| Disposal of treasury shares by Charles Vögele Trading AG | January–June 2006 | 50.09 | (33 000) |
| Purchase of treasury shares by Charles Vögele Trading AG | August 2006 | 88.00–92.51 | 50 488 |
| Disposal of treasury shares by Charles Vögele Trading AG | August 2006 | 49.00–90.00 | (5 953) |
| Purchase of treasury shares by Charles Vögele Trading AG | September 2006 | 95.33 | 55 992 |
| Disposal of treasury shares by Charles Vögele Trading AG | September–December 2006 | 48.09–101.27 | (56 919) |
| Treasury shares 31.12.2006 | | | 325 200 |
| Disposal of treasury shares by Charles Vögele Trading AG | January–September 2007 | 47.00–136.71 | (53 418) |
| Purchase of treasury shares by Charles Vögele Trading AG | September–October 2007 | 97.11–110.64 | 105 800 |
| Disposal of treasury shares by Charles Vögele Trading AG | November–December 2007 | 46.09 | (7 036) |
| Treasury shares 31.12.2007 | | | 370 546 |

For the holdings of treasury shares in the Charles Vögele Group as of December 31, 2007, a reserve was formed in Charles Vögele Holding AG to the amount of the purchase value of CHF 31.1 million (December 31, 2006: CHF 24.4 million).

9 Major shareholders

All of the company's shares are bearer shares. Consequently, the company runs no share register. The following is based on information supplied to the company under stock exchange regulations and other information available to the company.

| Shareholders | Share of capital as of 31.12.2006 ¹⁾ | Share of capital as of 31.12.2007 ¹⁾ | As announced on |
|---|---|---|-----------------|
| Bestinver Gestion S.G.I.I.C. S.A., Madrid, Spain | 5.0% | 10.30% | 14.12.2007 |
| Classic Global Equity Fund / Braun, von Wyss & Müller AG, Zürich, Switzerland | 9.3% ²⁾ | 9.3% ²⁾ | 28.03.2002 |
| Cheyne Special Situations Fund, Grand Cayman, Cayman Islands | n.a. | 6.39% | 02.05.2007 |
| UBS Fund Management (Switzerland) AG, Basel, Switzerland | 5.0% | 5.46% | 05.09.2007 |
| Laxey Partners Ltd., Onchan, Isle of Man, IM3 1NA, GB | n.a. | 5.23% | 14.09.2007 |
| JPMorgan Chase & Co. 270 Park Avenue, New York | n.a. | 4.93% | 11.09.2007 |

¹⁾ According to information submitted by shareholders to the company until the specified date.

²⁾ As stated in annual report

10 Contingent liabilities

| CHF 1000 | 31.12.2006 | 31.12.2007 |
|------------------------------------|------------|------------|
| Rental guarantees to third parties | 43 158 | 40 037 |
| Guarantees to financing banks | 363 189 | 391 459 |

In addition, letters of comfort were issued to subsidiary companies.

11 Pledged assets

In connection with the syndicated refinancing agreement signed in June 2007 (see Note 29 in the notes to the consolidated financial statements), Charles Vögele Holding AG issued a guarantee towards the lending banks.

12 Board of Directors and Group Management: Total payments and shareholdings

Disclosure of total payments and shareholdings pursuant to the Swiss Code of Obligations (CO) is made in the notes to the consolidated financial statements (see Note 38).

Proposed Appropriation of Retained Earnings

as of December 31, 2007

The Board of Directors proposes to the Annual Shareholders' Meeting of April 16, 2008, to carry forward the retained earnings of CHF 17.4 million.

CHF 1000

| | |
|--------------------------------------|---------------|
| Retained earnings as of 31.12.2007 | 17 429 |
| Balance to be carried forward | 17 429 |

Since the legal reserves have reached 20% of the share capital, there will be no further allocation to the legal reserve.

The Board of Directors proposes to the Annual Shareholders' Meeting of April 16, 2008, that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares is reduced by CHF 2.00 per share – from CHF 6.00 to CHF 4.00 per share.

Report of the Statutory Auditors to the General Meeting of Charles Vögele Holding AG, Pfäffikon SZ

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes, pages 50 to 54) of Charles Vögele Holding AG for the year ended December 31, 2007.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Matthias von Moos
Auditor in charge



Pascal Wintermantel

Zurich, March 3, 2008

Forthcoming events

- Annual Shareholders' Meeting 2007:
April 16, 2008
- Analysts' and media conference
on the 2008 half-year results:
August 26, 2008
- Analysts' and media conference on
the 2008 financial year results:
March 3, 2009
- Annual Shareholders' Meeting 2008:
April 1, 2009
- Analysts' and media conference
on the 2009 half-year results:
August 25, 2009

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